CML Group Limited (CGR)

ABN: 88 098 952 277 **Appendix 4E**

Preliminary Final Report **Year ended 30 June 2016**

FINANCIAL YEAR ENDED: 30 June 2016
Previous financial period ended: 30 June 2015
Audit Status: This report is in the process of being audited but is not likely to be the subject of dispute or qualification.

Results for announcement to the market

				$'000s
Revenue from ordinary activities	up	16%	to	27,092
Net profit (loss) for the year after tax attributable to members	up	124%	to	38

Dividends	**Amount per security**	**Franked amount per security**
Final dividend – payable on 7 October 2016 Interim dividend – paid on 13 April 2016	0.50 cents 0.50 cents	100% 100%
Record date for determining entitlements to the final dividend	16 September 2016	
Date for payment of the final dividend	7 October 2016	
Dividend Reinvestment Plan ("DRP") will apply to the final dividend.		

Brief explanation of any of the figures reported to enable the figures to be understood;

Commentary:

Please refer to preceding Full Year Trading Update announcement and commentary on results below.

For any queries, please contact Daniel Riley on 1300 666 177

Signed: Daniel Riley, Director
Date: 25th August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Note	Consolidated Group 30 June 2016 $000's	30 June 2015 $000's
Continuing operations			
Revenue		27,092	23,296
Agency fees		(597)	(3,047)
Employee benefit expense (direct employees)		(5,291)	(3,156)
Employee benefit expense (on-hire staff)		(12,871)	(13,453)
Depreciation and amortisation expense		(127)	(110)
Finance costs-product related		(2,548)	(820)
Finance costs-corporate		(1,378)	(421)
Rent		(405)	(314)
Bad and doubtful debts		326	(1,206)
Insurance		(764)	(143)
Other expenses		(2,001)	(1,531)
Total Expenditure		(25,656)	(24,201)
Profit/(Loss) before Income Tax		1,436	(905)
Income tax expense		(486)	171
Profit/(loss) for the year from the continuing operations		950	(734)
Discontinued operations			
Profit/(loss) for the year from the discontinued operations	7	(912)	751
Profit/(loss) attributable to members of the parent entity		38	17
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		38	17
Earnings/(loss) per Share:			
From continuing and discontinued operations			
Basic and diluted earnings/(loss) per share (cents)	4	0.04	0.02
From continuing operations			
Basic and diluted earnings/(loss) per share (cents)	4	0.98	(0.78)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	Consolidated Group 30 June 2016 $000's	30 June 2015 $000's
CURRENT ASSETS			
Cash and cash equivalents	10	14,738	14,142
Trade and other receivables		114,596	39,479
Other current assets		522	3,605
Assets classified as held for sale	8	9,579	-
TOTAL CURRENT ASSETS		139,435	57,226
NON-CURRENT ASSETS			
Plant and equipment		161	218
Deferred tax assets		1,555	1,515
Intangible assets		15,370	7,428
TOTAL NON-CURRENT ASSETS		17,086	9,161
TOTAL ASSETS		156,521	66,387
CURRENT LIABILITIES			
Trade payable		50,001	19,927
Other payable		7,197	1,373
Other current liabilities		26	20
Borrowings		26	8
Current tax liabilities		1,067	624
Short-term provisions		415	796
Liabilities directly associated with assets classified as held for sale	8	6,190	-
TOTAL CURRENT LIABILITIES		64,922	22,748
NON-CURRENT LIABILITIES			
Borrowings		76,973	33,657
Long-term provisions		71	33
Other non-current liabilities		20	46
TOTAL NON-CURRENT LIABILITIES		77,064	33,736
TOTAL LIABILITIES		141,986	56,484
NET ASSETS		14,535	9,903
EQUITY			
Issued capital	2	16,045	10,979
Reserves		439	441
Accumulated losses		(1,949)	(1,517)
TOTAL EQUITY		14,535	9,903

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Financial Year Ended 30 June 2016

Consolidated Group

	Share Capital $000's	General Reserve $000's	Accumulated Losses $000's	Total Equity $000's
Balance at 1 July 2014	**10,350**	**441**	**(524)**	**10,267**
Total comprehensive income for the year	-	-	17	17
Transactions with owners in their capacity as owners				
Contributions of equity	629	-	-	629
Share issue costs		-	-	-
Dividends provided for or paid	-	-	(1,010)	(1,010)
Balance at 30 June 2015	**10,979**	**441**	**(1,517)**	**9,903**
Balance at 1 July 2015	**10,979**	**441**	**(1,517)**	**9,903**
Total comprehensive income for the year	-	-	38	38
Transactions with owners in their capacity as owners				
Contributions of equity	5,066	-	-	5,066
Foreign Currency Reserve		(2)		(2)
Share issue costs		-	-	-
Dividends provided for or paid	-	-	(470)	(470)
Balance at 30 June 2016	**16,045**	**439**	**(1,949)**	**14,535**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

		Consolidated Group	
	Note	30 June 2016 $000's	30 June 2015 $000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		450,221	157,101
Payments to suppliers and employees		(483,459)	(165,864)
Interest received		154	95
Finance costs		(4,185)	(1,425)
Income tax paid		(559)	-
Net cash (used in) operating activities		(37,828)	(10,093)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Plant and Equipment		(79)	(81)
Payments for IT Development		-	(53)
Payment for subsidiary, net of cash acquired		(8,870)	(2,717)
Net cash (used in) investing activities		(8,949)	(2,851)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		5,425	629
Cost of capital raising		(359)	-
Proceeds from borrowings		43,316	33,648
Repayment of borrowings		-	(6,685)
Dividends paid to company's shareholders		(470)	(1,010)
Net cash provided by financing activities		47,912	26,582
Net increase in cash held		1,135	13,638
Cash at the beginning of the financial year		14,142	504
Cash at the end of the financial year		15,278	14,142

The accompanying notes form part of these financial statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report includes the consolidated financial statements of CML Group Limited and controlled entities ('Consolidated Group' or 'Group'). Accounting policies have been applied consistently from the prior year.

2. CONTRIBUTED EQUITY

	2016 Shares	2015 Shares	2016 $000's	2015 $000's
Ordinary Shares fully paid	130,100,023	93,937,825	16,045	10,979

36,162,198 ordinary shares were issued in the financial year ended 30 June 2016.

3. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries.

Name of entity	**Country of Incorporation**	**Class of Shares**	**Equity holding* 2016**	**Equity holding* 2015**
Parent entity				
CML Group Limited	Australia	Ordinary		
Controlled entities				
Cashflow Advantage Pty Ltd	Australia	Ordinary	100%	-
180 Group Pty Ltd	Australia	Ordinary	100%	-
180 Capital Funding Pty Ltd	Australia	Ordinary	100%	-
Cashflow Finance Australia Pty Ltd	Australia	Ordinary	100%	100%
Zenith Management Services Pty Ltd	Australia	Ordinary	100%	100%
Lester Australia Limited	UK	Ordinary	100%	100%
The Lester Partnership Pty Limited	Australia	Ordinary	100%	100%
Lester Payroll Services Pty Limited	Australia	Ordinary	100%	100%
Lester Associates Good Migration Pty Limited	Australia	Ordinary	100%	100%
Lester Associates Business Services Pty Limited	Australia	Ordinary	100%	100%
LesterPlus Pty Limited	Australia	Ordinary	100%	100%

The proportion of ownership interest is equal to the proportion of voting power held.

*Acquisition of Cashflow Advantage Pty Ltd was completed on 23 March 2016 and acquisition of 180 Group Pty Ltd and 180 Capital Funding Pty Ltd were completed on 30 May 2016.

4. EARNINGS PER SHARE

	Consolidated Group 2016 Cents per Share	2015 Cents per Share
Basic and diluted earnings per share		
Continuing operations	0.98	(0.79)
Discontinued operations	(0.94)	0.81
Continuing opertations and discontinued operations	0.04	0.02

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:-

	Consolidated Group 2016 $000's	2015 $000's
Earnings (i)		
Continuing operations	950	(734)
Discontinued operations	(912)	751
Continuing and discontinued operations	38	17
	No	**No**
Weighted average number of ordinary shares (ii)	96,748,245	92,474,823

(i) Earnings used in the calculation of basic earnings per share are net profit after tax.
(ii) The Group has a total of 10,387,131 convertible notes at 30 June 2016 which have an anti-dilutive impact on the earning per share, and therefore are not included in the calculation.

5. NET TANGIBLE ASSET BACKING

	Cents	Cents
Net tangible asset backing per ordinary security (per share)	(0.9)	2.6

6. EVENTS SUBSEQUENT TO REPORTING DATE

CML Group Limited ("CML" or the "Company") completed the sale of its Lester Associates payroll business on 1 August 2016. CML will retain and continue to operate its employment and labour hire business.

7. DISCONTINUED OPERATIONS

As per note 6, the Group completed the sale of its Lester Associates payroll business on 1 August 2016.
The combined results of the discontinued operations included in the profit for the year are set out below. The comparative profit and cash flows from the discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

	2016 $000's	2015 $000's
Profit (loss) for the year from discontinued operations		
Revenue	58,325	64,674
Expenses	(57,905)	(64,437)
Profit before tax	420	237
Attributable income tax expense (benefit)	(131)	514
	289	751
Loss on remeasurement to fair value less costs to sell	(856)	-
Attributable income tax expense	(345)	-
Profit (loss) for the year from discontinued operations	(912)	751
Cashf flows from discontinued operations		
Net cash outflows from operating activities	(913)	(268)
Net cash inflows from investing activities	-	-
Net cash inflows from financing activities	664	931
Net cash inflows (outflows)	(249)	663

The Lester payroll business has been classified and accounted for at 30 June 2016 as a disposal group held for sale (see note 8).

8. ASSETS CLASSIFIED AS HELD FOR SALE

As per note 6, the Group completed the sale of its payroll business, Lester Associates on 1 August 2016. The major classes of assets and liabilities of the payroll business at the end of the reporting period are as follows:-

	2016 $000's
Cash	540
Trade & Other Receivabless	5,407
Other Current Assets	3,627
Property, Plant and Equipment	5
Assets of payroll business classified as held for sale	9,579

	2016 $000's
Trade Payable	5,648
Provision	542
Assets of payroll business classified as held for sale	6,190
Net Assets of payroll business classified as held for sale	3,389

9. SEGMENT INFORMATION

Continuing operations

	Finance *$'000's*	Payroll and related services *$'000's*	Corporate *$'000's*	Total *$'000's*
Year ended 30 Jun 2016				
Invoice Purchased	*406,491*			
Total segment revenue	11,364	15,728	-	27,092
Adjusted Profit before income Tax	5,377	1,603	(1,634)	5,346
Year ended 30 Jun 2015				
Invoice Purchased	*94,708*			
Total segment revenue	3,486	19,810	-	23,296
Adjusted Profit before income Tax	(109)	1,686	(1,209)	368

The Board assesses the performance of the operating segments based on a measure of adjusted profit / (loss) before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/ (losses) on financial instruments. Interest income and expenditure are also not allocated to segments. A reconciliation of adjusted Profit before Income Tax to Profit before Income Tax is provided as follows:-

	Consolidated Group	
	30 Jun 2016 **$000's**	**30 Jun 2015** **$000's**
Adjusted Profit before income tax	5,346	368
Depreciation and amortisation	(127)	(110)
Interest costs	(3,926)	(1,240)
Interest Income	143	77
Profit (loss) before income tax	1,436	(905)

10. CASH AND CASH EQUIVALENT

	30 Jun 2016	30 Jun 2015
Cash and bank balances	14,738	14,142
Cash and bank balances included in assets held for sale	540	-
	15,278	14,142

11. COMMENTARY ON RESULTS

We are pleased to report a substantial uplift in earnings in FY'16 compared to last year, with EBITDA from continuing operations of $5.3m up 263% on the prior corresponding period.

"Business improvements made during FY'15 provided a base for growth"
CML made several business improvements during FY'15, including access to funding, staffing and software, which in combination provided a base from which to grow the business;

Funding	The primary objective for CML to achieve sustainable growth was to secure long-term funding. Through relationships formed in FY'15, CML now has in excess of $75m in long-term funding, through corporate bonds and a convertible note. Additional funding is available to CML through a facility with Greensill Capital and is drawn as required.
Staff	During FY'15, CML employed an experienced executive team and through the first of its finance business acquisitions, retained an operations team in Qld with average industry experience exceeding 5 years. This provided CML with the experienced team required to manage operations, risk, credit and sales
Process improvement and software	The software platform implemented during FY'15 assists with risk identification and management, in addition to assisting efficient service delivery to our growing customer base

FY'16 Performance

"CML's accelerated growth program boosts FY'16 earnings"
The above initiatives provided CML with a steady base from which to push forward with an accelerated growth program, the result of this being an increase in the size of CML's loan book of 225% from $21.5m at 30Jun15 to $69.9m at 30Jun16.

The accelerated growth came from 2 initiatives;

Organic growth
CML achieved approximately 63% growth in its loan book during FY'16 through sales and marketing initiatives. Over the last 12 months CML has recruited a high performance sales team of 12 staff located along the East coast from North Qld to Melbourne, with each member of the team bringing decades of industry experience and a strong network of referral partners to CML. The efforts of the sales team is supported by CML's marketing program, from which we anticipate a growing number of new clients to originate. Client attrition reduced in FY'16 from service initiatives implemented by CML and is expected to remain low. It is anticipated that the combination of sales, marketing and client retention initiatives will facilitate strong organic growth during FY'17.

Acquisition of key competitors
CML achieved approximately 162% growth in its loan book during FY'16 through the acquisition of 2 key competitors;

- Cashflow Advantage ("CA") in March 2016, and
- 180 Group ("180") at the end of May 2016.

The combined annual value of invoices purchased by the acquired businesses is in excess of $500 million and there is an opportunity to improve the margin generated on this turnover by offering additional services that are popular with existing CML clients and that the acquired clients did not have access to under the previous ownership structure.

The timing of the acquisitions means that there was very little contribution to FY'16 earnings. Significantly for FY'17 though, there will be a full year of earnings from the acquired businesses including the benefit of costs synergies from changes to operating cost base made in Q4FY'16.

There were transaction costs on acquisitions and interest costs on "negative carry" of funds raised during FY'16 from new Corporate Bonds issued in preparation for anticipated growth. The impact of these costs on FY'16 profit before tax was approximately $1.4m before tax.

Outlook

"CML's accelerated growth program positions CML for a strong FY'17"

The accelerated growth program from FY'16 has cemented CML's position as the second largest non-bank invoice finance specialist, behind Scottish Pacific. The growth program has provided CML with the scale required to deliver an earnings boost in FY'17 and the business plan is crystal clear, focused on scale and profit, which are linked even more so by the opportunity of cheaper funding for CML at the appropriate time.

Scale
The acquisitions completed towards the end of FY'16 have provided CML with a significantly larger beginning position for FY'17 compared to last year. Simply maintaining this position will transform CML's earnings; however we anticipate that scale will continue to build through CML's sales and marketing initiatives and client retention program. In addition to the investment in its experienced sales team, CML is investing significantly in FY'17 in a marketing program from which we anticipate in excess of 20% of new clients to originate, based on recent performance data. CML anticipates building its loan book from $70m at 30 Jun 17 to $100m+ within 2 years, entirely from organic growth.

Profit
CML's profit will benefit from a focus on the following;

Margin improvement
CML has experienced strong take-up from its existing clients on additional services offered. These services will be offered to clients of acquired businesses and the anticipated take-up will help improve margins to desired levels. A small percentage increase of circa 0.5% over 12 months on the acquired invoice turnover of circa $500 million, will contribute significantly to profit.

Cost synergies
Merging the operations of acquired businesses is expected to save in excess of $1m per annum. The required changes to achieve this cost saving have already been made.

Funding
CML expects to significant reduction in funding costs when it is able to transition from current arrangements, which average cost of funds of 8.9%, to institutional bank funding. The earliest exit point for the bulk of CML's current arrangements is the end of FY'18. Every 1% decrease in funding costs will generate ~ $0.7m in additional earnings, pre-tax. The additional earnings on a reduction in funding costs will grow proportionately with the loan book.

Business simplification
CML commenced a business simplification program during FY'16, aimed at exiting non-core businesses to free management time and working capital for growth of its business finance brands. The simplification program resulted in the sale of CML's payroll business, which delivered to CML approximately $3.5 million is cash, which will be utilised for growth of CML's loan book.

CML has retained a small but profitable recruitment division, which generates steady earnings and will either be retained ongoing by CML or divested if an appropriate offer is received.

Outlook and Guidance
CML has cemented its position as the second largest listed non-bank invoice finance provider in Australia, behind Scottish Pacific. CML expects to realise continued growth and deliver a boost to earnings in FY'17, driven by three key drivers:

1. Revenue – A full year's contribution from the acquired CA and 180 businesses, combined with organic growth is expected to drive revenue higher in FY'17.

2. Margin Improvement – Clients have continued to show strong take-up for CML's additional services offered. These services are expected to boost earnings as they are rolled out to newly acquired and existing clients, which have demonstrated a high take-up rate.

3. Cost Synergies – Cost synergies as result of merging the operations of acquired businesses are expected to reduce costs by in excess of $1.0 million per annum.

In addition, CML expects that over the long term, it will be able to transition from its current funding arrangements to institutional bank funding as it maintains its growth to scale. It is anticipated that the cost of funds will be well below the current average cost of 8.9%.

Thank you for your support of CML Group and we look forward to reporting on the progress of the Company during the current FY'17 year.

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Daniel Riley
Managing Director
25th August 2016