CML Group

CML Group Limited (ASX:CGR)

2 November 2016

CML GROUP LIMITED 2016 ANNUAL GENERAL MEETING ADDRESSES TO SHAREHOLDERS

CML Group Limited (ASX:CGR) will address shareholders today at its Annual General Meeting to be held at 3.00pm at the Kirribilli Club, 11 Harbourview Crescent, Lavender Bay, NSW.

In accordance with Listing Rule 3.13.3, attached is a copy of the Chairman's address, CEO's presentation that will be delivered at the Meeting.

Sincerely,

Steve Shin
Company Secretary

ABOUT CML GROUP

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.

Chairman's address to the AGM of CML Group Limited

Welcome to the 2016 Annual General Meeting of CML Group.

Since 2014 CML Group has undergone significant transition.

The finance division was just emerging, with approximately $10m lent to factoring customers, an immature business model, inexperienced staff and an emerging strategy.

Just on two years ago, management embarked on a path to growth, realising that a loan book of over $50m was a key requirement to attracting competitive finance and ensuring strong growth in profitability.

The growth during the 2015 financial year was strong, but the significant change was in the structure of the business. The board was renewed with addition of two new board members and a change in the chair.

An entire team of staff and management with strong factoring experience was attracted to the business and reliable, scalable sources of finance were secured. The board, in consultation with management developed and agreed a cogent growth strategy and consistent with that strategy, completed the acquisition of Cashflow Finance Australia in the final quarter.

The transition of CML Group to a focussed factoring business continued during the 2016 financial year and has placed the business in the position of having critical mass and a platform for significant growth in both scale and profitability.

In the 12 months to 30 June 2016, CML expanded its loan book by 225% to $70m, with 63% of this growth from new sales and 162% through acquisition of 2 key competitors. The acquisition component of our growth was in the final months of FY'16 and while there was inadequate time to contribute materially to FY'16 earnings, the acquisitions will add scale to our earnings base for the full FY'17.

The board and management is pleased to report an EBITDA from continuing operations of $5.3m and anticipate another significant upswing in FY'17 to $10.6m+, based on our current run rate following the integration of our 2 recent acquisitions.

To facilitate growth in its invoice finance business, CML has raised over $75m through the issue of Corporate Bonds and a Convertible Note. During FY'16, funds were raised in advance of requirements, in anticipation of growth, which resulted in negative carry related to excess cash. We expect reduced negative carry in FY'17 as the business consolidates its acquisitions and realises the considerable related synergies.

Additional funding is available to CML to draw during FY'17 as required, and we are comfortable that our expanded sales and marketing team will continue the strong growth momentum achieved during FY'16.

The board's confidence in CML's strategy to focus on invoice finance as its primary growth opportunity encouraged a business simplification process completed in FY'16. This involved the sale of CML’s payroll business, Lester Associates, which released approximately $3.5m including $1.8m in goodwill. The proceeds of the business sale will be used to grow CML’s invoice finance business.

In summary, a positive year for growth, through both acquisition and organic growth. A year in which scale was achieved to deliver strong profitability now and into the future. Once again, thank you to the staff within our business for their outstanding contribution, and thank you to our shareholders and finance providers for enabling our outstanding business growth.

Greg Riley
Chairman

CML Group

CEO's address to the AGM of CML Group Limited

The 2016 financial year was a significant one for CML Group, in that we completed the transformation to a finance business with the divestment of historic divisions of the business and cemented our position as the second largest non-bank invoice finance specialist in Australia with strong organic growth in the loan book, plus the acquisition of 2 key competitors.

The board and management are pleased to report a substantial uplift in earnings in the 2016 financial year, with EBITDA from continuing operations of $5.3m up 263% on the prior year. The earnings improvement was facilitated by CML's experienced sales and operations team, continued business process improvement and funding relationships established in the prior year.

Significantly for the years ahead, the acquisition program completed by CML Group in the final months of the 2016 financial year has transformed the scale of the Company, creating a much larger finance business from which to leverage earnings growth.

The acquisitions completed by CML Group in the final months of the 2016 financial year were of 2 key competitors;

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

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 integration of the acquired businesses into CML's operations, which is now complete.

The combined annual value of invoices purchased by the acquired businesses is in excess of $500 million, which will more than double the volume of business for CML Group in FY'17 compared to FY'16.

With consideration to the growth and focus by CML on its core business, invoice finance, a business simplification program commenced 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.

Current initiatives;

Earnings;

Strong organic growth, combined with the acquisitions completed towards the end of FY'16 has 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 further earnings leverage will emerge with gross margin improvement and better scale on embedded costs.

Branding;

CML currently operates four different finance brands, a legacy from our acquisition program. During FY'17, the four brands will be consolidated into one, Cashflow Finance, which will be the focus of our marketing spend and from which we anticipate a stronger return on investment compared to spreading our marketing budget across four.

Staff and Client retention;

CML will continue to build its corporate brand, to attract and retain a leading team of experienced sales and operations staff and we will continue our focus on customer service, which is assisting client retention and referrals.

Outlook and Guidance

CML has cemented its position as the second largest listed non-bank invoice finance provider in Australia. CML anticipates continued growth in FY17 with improved earnings driven by:

- Leveraging current loan book size
- Margin improvement
- Continued growth from sales and marketing initiatives

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%. Every 1% decrease in funding costs will generate approximately $0.7m in additional earnings, pre-tax. The additional earnings on a reduction in funding costs will grow proportionately with the loan book.

CML Group maintains its guidance for FY'17 of EBITDA of $10.6m+

CML Group

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

CML Group

(ASX: CGR)

Annual General Meeting

Daniel Riley – CEO

2 November 2016

Executive Summary

FY’16 Highlights

- Group EBITDA up 263% to $5.3m
- Loan Book up 225% to $69.9m at 30Jun16;
  63% through new sales
  162% through acquisition in the final months of FY’16
- Acquisition of 2 key competitors, with integration now complete
- Business simplification program resulted in the sale of CML’s payroll business, generating $3.5m in cash
- Final Dividend of 0.5cps (FY’16 dividend to 1.0cps)

Financial Results

Strong earnings improvement has continued, driven by growth in the Finance division

Y/E 30 Jun ($m)	FY'15 A	FY'16 A	Δ pcp	Comments
Finance Revenue	3.5	11.4	*226%*	Revenue driven by increase in Invoices Purchased
Other Revenue	19.8	15.7	*(21)%*	Does not include divested Lester business
Group Revenue	**23.3**	**27.1**	*16%*	
Finance EBITDA	1.0	5.4	*440%*	Earnings growth in excess of revenue growth
Other EBITDA	1.7	1.6	*(5)%*	
Corporate Overhead	(1.2)	(1.6)	*35%*	Increased overheads associated with integration of acquisitions
Underlying EBITDA[1]	**1.5**	**5.3**	*263%*	
D&A	(0.1)	(0.1)	*15%*	
Net Interest	(1.2)	(3.8)	*225%*	Increased with higher debt
Tax	0.2	(0.5)		
Continuing NPAT[2]	**0.4**	**1.0**		
EPS	0.40	0.98		
DPS	0.50	1.00		0.5 cents per share Final Dividend

Finance Cost	FY'15	FY'16
Utilised funds	$0.8m	$2.6m
Unutilised funds	$0.4m	$1.4m
Interest Income	$0.1m	$0.1m

1. *FY'15 adjusted to underlying to exclude impact of $1.1m one-off expenses*
2. *Continuing Business excluding Lester sold in July 16*

Current Initiatives

i) To execute on CML's business plan of leveraging scale to improve earnings

ii) Development of CML's finance brand, to build awareness, client loyalty and increase new business enquiries

Leverage scale to improve earnings

FY'17 guidance of $10.6m+ reaffirmed

Earnings improvement to be driven by;

Scale

- Full year contribution from acquired businesses, which will more than double turnover of purchased invoices to ~ $900m+ (FY16: $407m). The integration of acquisitions is expected to create more than $1m p.a. in cost synergies.

Margin Improvement

- Expected take-up of additional value-added services from clients of the acquired Loan Book's will drive an improvement in gross margin

Continued organic growth

- CML has invested in an experienced sales and marketing team and expects organic growth momentum to continue. The consolidation of marketing spend into a single brand is expected to drive improved returns on marketing investment.

Brand Consolidation

To maximise return on marketing investment, CML's finance brands will consolidate into one

earlypay

CASHFLOWADVANTAGE

180 Group The Business Cashflow Specialists

Cashflow Finance AUSTRALIA

Current

New

cashflow finance let's go!

"A refreshed marketing campaign will commence in November, to promote our brand as a people focussed organisation that strongly supports the SME community"

Outlook & earnings guidance

FY'17 guidance of $10.6m+ reaffirmed

CML expects to deliver a boost to earnings in FY'17, from its three key drivers:

- Leveraging current loan book size
- Margin improvement
- Continued growth from sales and marketing initiatives

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%. Every 1% decrease in funding costs will generate approximately $0.7m in additional earnings, pre-tax. The additional earnings on a reduction in funding costs will grow proportionately with the loan book.

CML Group maintains its guidance for FY'17 of EBITDA of $10.6m+

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.

The purpose of this presentation is to provide background information to assist in obtaining a general understanding of CML Group's proposals and objectives. This presentation is not to be considered as a recommendation by CML Group or any of its subsidiaries, directors, officers, affiliates, associates or representatives that any person invest in its securities. It does not take into account the investment objectives, financial situation and particular needs of each potential investor. If you are unclear in relation to any matter or you have any questions, you should seek advice from an accountant or financial adviser.