



CML Group Limited (ASX:CGR)

9 May 2016

Transformational acquisition, capital raising & upgrade to earnings guidance

Highlights

- CML has entered into a binding Agreement to acquire 180 Group, the invoice financing business of ASX-listed FSA Group, which will further accelerate growth in the Finance division and grow the loan book to \$68.0m+
- Acquisition adds further diversification in client base and greater scale
- Funded by combination of equity, debt and existing cash reserves:
 - Placement of \$2.0m to institutional investors;
 - \$3.2m 1:5 Rights Issue to existing shareholders; and
 - \$15.0m extension to Corporate Bond 2 issue
- On an FY'17 proforma basis, the acquisition builds:
 - Invoices purchased to nearly \$1.0 billion
 - Invoice finance revenue to \$23.0m+
 - EBITDA to \$10.5m+
 - EPS to 2.0+ cps
- Henslow is acting as sole Lead Manager to the Placement and Rights Issue

Transformational Acquisition

CML Group (“**CML**” or the “**Company**”) is pleased to announce that it has entered into a binding Agreement to acquire 100% of the shares in 180 Group (“**180**”). The consideration of \$35.5m includes \$5.5m representing the goodwill in 180 and \$30.0m to fund the acquired loan book. Due diligence has been completed and the acquisition is subject only to CML's ability to raise the purchase consideration. The acquisition will be funded by a mix of equity, debt and existing cash reserves

180 is a debtor finance subsidiary of the ASX-listed FSA Group Limited (ASX:FSA) (“**FSA**”) and is based in Sydney. 180 achieved invoice purchases totalling \$471m in FY'15 and has a track record of sustainable earnings, as tabled below:

180 Group Financial Results

\$m	FY'14 A	FY'15 A	H1'16 A
Loan Book	24.9	31.7	34.2
Revenue	8.1	8.2	4.2
Impairment	-	-	(0.7)
EBITDA	3.9	3.8	1.4
<i>EBITDA Margin</i>	<i>48%</i>	<i>46%</i>	<i>33%*</i>

**H1'16 EBITDA margin lower than historical due to increased impairment*

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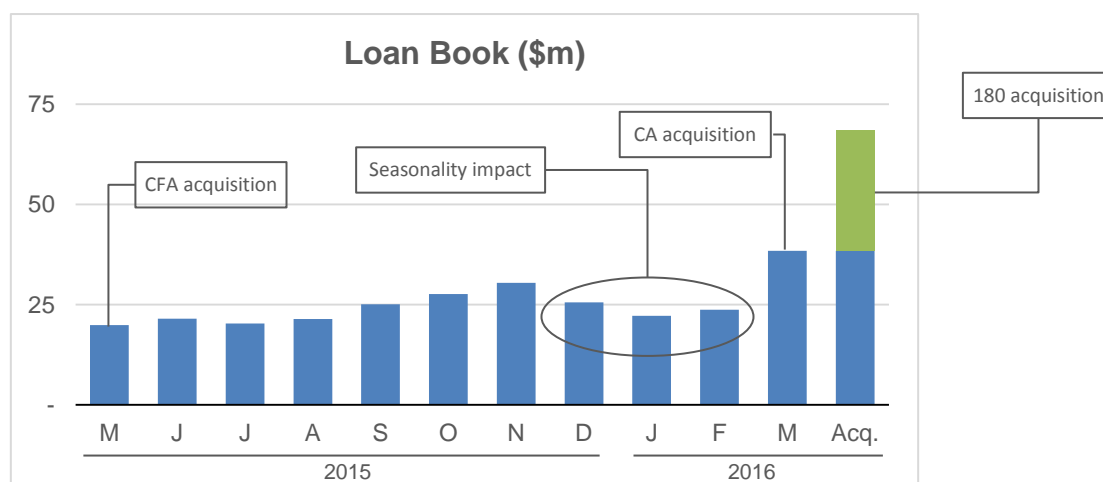
The acquisition will be immediately earnings accretive and CML has identified ~\$1.0m of net cost synergies which may be achieved on acquisition.

180 has 116 clients, with an average loan size that is larger than the average CML client, but otherwise has a very similar client profile. The 180 client pool is exposed to the wholesale, manufacturing, transport and labour-hire industries and has an average client tenure similar to CML of approximately 3 years.

Key statistics of 180's loan book, as compared with the existing CML loan book is summarised in the table below:

CML and Group Book Key	CML	180	CML + 180	180 Loan Statistics
Debtors	\$53.4m	\$57.6	\$111.0m	
Book Size	\$38m+	\$30m	\$68m+	
Clients	232	116	348	
Average Loan	\$153k	\$247k	\$184k	
Maximum Exposure	\$1.7m	\$1.6m	\$1.7m	
LVR	~71%	~52%	~61%	

The experience CML has gained and processes put into place over the last two acquisitions of CFA and CA will be of substantial benefit in the integration of this highly complementary business that will substantially grow CML's loan book from \$38.4m as at 31 March 2016, to \$68.0m+.



It is expected that CML will be able to generate greater margins within the acquired 180 loan book, which are currently lower than what CML achieves on its existing loan book. This increase in margins will be driven by introducing CML charge methodologies and value-added services to the 180 loan book as it is integrated into CML.

Gross Margin

	CML	180
Gross Margin	3.0%+	1.8%

Comparison

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\$5.2m Capital Raising

An equity capital raise of \$5.2m will be undertaken, consisting of a:

- \$2.0m Placement to Institutional investors at \$0.15 per share ("**Placement**")
- \$3.2m 1-for-5 Non-Renounceable Rights Issue at \$0.15 per share ("**Rights Issue**") to existing shareholders on the proposed record date of Monday, 23 May 2016 ("**Record Date**")

The funds will be applied to part fund the goodwill component of the 180 acquisition and replenish working capital. The balance of the goodwill component will be funded from existing cash reserves.

Eligible shareholders in Australia and New Zealand on the Record Date will be invited to participate in the Rights Issue which will open on Thursday, 26 May 2016.

New Shares issued under the Placement and the Rights Issue will rank equally with existing CML ordinary shares.

Shares	
Current Outstanding	95.3m
Placement	13.1m
Rights Issue	21.7m
Total Shares on Issue Post Raising	130.1m

Please refer to Annexure 1 for the proposed timetable in respect of the Placement and the Rights Issue. Note that the timetable is indicative only and is subject to change at the Company's discretion.

Henslow is acting as sole Lead Manager to the Placement and Rights Issue.

Expanded Debt Facility

CML will undertake an extension to Corporate Bond 2, issuing an additional \$15.0m of capital. The Lead Arranger for the Issue is FIIG Securities Limited. The Bond offering is only open to eligible professional and sophisticated investors. Total interest cost, excluding the Greensil facility, on an annual basis is forecast to be \$5.9m.

Debt	Funding
Summary	

	Size	Rate	Interest (p.a.)
Convertible Note	\$10.4m	9.0%	\$0.9m
Corporate Bond 1	\$25.0m	BBSW* + 5.4%	\$1.8m
Corporate Bond 2	\$40.0m	8.0%	\$3.2m
Total Debt Funding	\$75.4m		\$5.9m

**30 day BBSW taken as at 4 May*

After the acquisition, CML will have \$7.0m of funding headroom remaining in its Convertible Note and Corporate Bond facilities and access to a further \$12.0m in unsecured debt facilities. CML is comfortable with its funding capacity to support further organic growth in the loan book.

CML loan book	\$38.4m
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Use of Funds	180 loan book	\$30.0m
	Headroom	\$7.0m
	Total Debt Funding	\$75.4m

Earnings Guidance

The acquisition of 180, on a Proforma basis for the combined group, will almost double the invoices purchased in FY'17 from \$500m+ to nearly \$1.0 billion. This will directly drive Finance divisional revenue growth to more than \$23.0m+, up 130%+ on FY'16 forecast.

The blending of the 180 loan book with the existing CML loan book will initially dilute gross margins, which will progressively improve as CML's charge methodologies and value-added services are introduced to the 180 loan book.

EBITDA is expected to grow to in excess of \$10.5m+, excluding any growth in 180. Underlying NPAT and EPS are forecast to grow to greater than \$2.5m+ and 2.0+ cps, respectively.

The financial implications of the acquisition as compared with previously provided guidance is summarised in the table below:

\$m	FY'15 A	FY'16 F	FY'17 F (Guidance)	180 Group	FY'17 F (Proforma)
Invoices Purchased	96.9	325+	500+	470+	970+
Finance	3.5	10.0+	15.0+	8.0+	23.0+
Payroll & Other	82.2	74.0+	74.0+		74.0+
Total Revenue	85.7	84.0+	89.0+	8.0+	97.0+
Finance	1.0	4.5+	7.5+	3.0+	10.5+
Payroll & Other	2.4	2.0+	2.0+		2.0+
Corporate	(1.2)	(1.5)	(1.9)+		(1.9)+
Underlying EBITDA	2.2	5.0+	7.6+	3.0+	10.6+
One-off Costs	(1.4)	-	-		-
Reported EBITDA	0.8	5.0+	7.6+		10.6+
D&A	(0.2)	(0.2)	(0.3)+		(0.5)+
Net Interest	(1.3)	(3.6)	(4.8)+		(6.5)+
Tax	0.7	(0.5)+	(0.8)+		(1.1)+
NPAT	0.0	1.0+	1.7+		2.5+
Underlying* NPAT	0.5	1.0+	1.7+		2.5+
EPS	0.02 cps	1.0+ cps	1.3+ cps		2.0+ cps
Underlying* EPS	0.53 cps	1.0+ cps	1.3+ cps		2.0+ cps

Margins

Finance Gross Margin	3.6%	3%+	3%+	1.7%+	2%+
Finance Divisional EBITDA	28.2%	45%+	50%+	37.5%+	45%+
Underlying EBITDA	2.6%	6%+	8%+		11%+
Underlying NPAT	0.6%	1%+	2%+		2%+

*Underlying adjusted to remove impact of one-off costs

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Outlook

Commenting on the acquisition, capital raising and expanded debt facility CML Group CEO, Daniel Riley, said, "This series of transactions represents the next stage of our growth as an invoice finance company. We have invested significantly into the company's systems, capabilities and, most importantly - people. This has culminated in achieving significant scale and potential in both the offering to our clients and our access to funding.

The acquisition of 180 Group will build upon the base that has been established in the business and we expect that this will be a catalyst for significant value creation for our shareholders.

CML's strategy includes a focus on funding costs, which we anticipate can be reduced by more than 25% in the next 3 to 5 years. On current loan book size and additional organic growth, we expect reduced funding costs to have a positive impact on earnings in the future."

Sincerely,



Daniel Riley
CEO

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.

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.

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ANNEXURE 1 Proposed Timetable

Date*	Event
Monday 9 May 2016	Announcement
Wednesday 11 May 2016	Placement Settlement Date
Friday 13 May 2016	Placement Allotment Date
Monday 16 May 2016	Expected Trading of Placement Shares
Wednesday 18 May 2016	Lodgement Date – Rights Issue
Friday 20 May 2016	Ex Date – Rights Issue
Monday 23 May 2016	Proposed Record Date – Rights Issue
Thursday 26 May 2016	Rights Issue Opening Date
Monday 30 May 2016	Completion of Acquisition
Monday 6 June 2016	Rights Issue Closing Date
Tuesday 7 June 2016	Rights Issue Shares Quoted on a Deferred Basis
Thursday 9 June 2016	Rights Issue Shortfall Notification Date
Tuesday 14 June 2016	Rights Issue Settlement Date
	Rights Issue Allotment Date
	Dispatch of Rights Issue Holding Statements
Wednesday 15 June 2016	Expected Trading of Rights Issue Shares

**The dates contained in the above timetable are indicative only. The Company may vary these dates subject to the ASX Listing Rules.*