ABN: 88 098 952 277
Level 11, 201 Miller Street, North Sydney NSW 2060

7 July 2020

CML Group Limited (ASX: CGR)
("CML")

Business Update – Early Signs of a Rebound

Key Highlights

- **CML has experienced strong monthly growth in volumes as business restrictions ease**
- **CML's high quality book has not experienced material defaults or losses**
- **CML expects FY'20 EBITDA of $19.5m-$20.5m and NPATA of $7.5m-$8m**
- **CML anticipates paying a full year dividend in the range 1.75-2 cents per share, fully franked**
- **FY'21 outlook is positive with increasing demand for invoice financing expected to continue**

CML Group ("CML", "the Company") is pleased to provide the following update in relation to;

- Performance of its Invoice Finance and Equipment Finance loan portfolios
- Funding warehouse extensions
- Outlook and full year earnings and dividend guidance

Invoice Finance

CML's core invoice finance product provides immediate payment to SME's on their sales to business customers where credit terms are offered.

CML is well positioned to assist SME's in coming months with their working capital requirements to manage the costs associated with recent business disruption, reduced availability of Government assistance and the investment required to return to full operating capacity.

Volumes

For June, CML's core Invoice Finance business has seen its biggest one month increase in the past 12 months in invoice volumes, as a result of net growth in client numbers for the month, plus existing client volumes beginning to lift from reduced activity in April and May as a result of COVID-19.

In summary

- June 2020 was up 14% on May 2020 (up 16% excluding Classic Funding Group acquisition)
- June 2020 was up 10% on June 2019 (down 15% excluding Classic Funding Group acquisition)
- For FY'20 CML financed just over $1.7 Billion of invoices compared to $1.6 Billion for FY'19.

Margin and Quality

Encouragingly, all new clients for June have taken CML's full-service invoice finance product, which generates higher than average margins for the business. CML's full-service product includes support with invoice collections, which is both a benefit for clients and a risk mitigant for CML.

The robustness of CML's invoice finance product has been demonstrated by;

- No material change to client attrition during business trading restrictions
- No material additions to CML's credit risk report, with all lending against this loan book secured and with a Loan to Value Ratio of ~60%

Outlook

While volumes remain subdued compared to pre-COVID-19 periods, CML anticipates a continuation of volume growth driven by increasing demand for invoice finance as businesses consider working capital requirements to manage the costs associated with recent business disruption, reduced availability of Government assistance and the investment required to return to full operating capacity.

Currently, CML's new customer pipeline for invoice finance is the strongest it has been for at least 12 months.

CML has reduced its Invoice Finance cost base by $2.5m on an annualised basis during the COVID-19 period, by permanently removing management layers from the organisational structure and addressing over-capacity of staffing in other areas of its business.

There will be some reinvestment of the savings as CML pushes for growth, with recruitment underway for an expansion of the invoice finance sales team.

Equipment Finance

Volumes

In addition to Invoice Finance, CML also provides Equipment Finance. The Loan book at the end of June 2020 was $99.4m and includes $79.6m from the acquired Classic Funding Group in November 2019.

Margin and Quality

In line with major bank and non-bank lenders CML implemented a COVID-19 support policy for existing clients, with CML generally providing a 3-month repayment deferral period for clients who took up the policy. In the last fortnight, CML has been contacting clients to discuss capacity to recommence payments and has been encouraged by the response.

In summary

- 219 contracts were provided with repayment deferrals which represented 14.3% of the total book by value (and a similar percentage by number of contracts).
- At this early stage, CML is pleased to report that 109 of the contracts or 49% by value of the deferrals, have now recommenced payments, with only 110 contracts being 7.2% of the total book by value presently remaining on deferral support.

CML is confident in a continuation of the above trend as clients progressively reach the end of their 3-month deferral period. The reason for this assessment is that the majority of CML's equipment finance clients are in industries affected, but not materially impacted by, the business shutdown period. They have continued to trade and are expected to have capacity to recommence payments at the expiry of their deferral period. In addition, the equipment financed for these clients typically has a strong resale market and would repay or materially reduce CML's exposure in the event of client default.

CML clients in industries considered to be directly affected by the Government's mandated business shutdown represent less than 1% of remaining repayment deferrals by total book value.

Outlook

The high number of clients resuming payments on schedule is a very promising signal that CML will not incur a material increase in future credit losses against the equipment finance portfolio, however CML will continue to monitor and assess the Equipment Finance portfolio and will determine any adjustment to provisioning in the next 6 weeks.

CML continues to originate new equipment finance transactions, although volumes will remain below historical levels while uncertainty of business trading conditions continues.

Funding update

CML's primary source of funding comprises 3 warehouse facilities, provided by major Australian banks, with 2 facilities for Invoice Finance and 1 facility for Equipment Finance.

During May and June, annual reviews were completed for all 3 facilities and CML is pleased to confirm extension of all facilities.

- Warehouse 1, Invoice Finance – Extended to 7th July 2021, no material change to pricing or covenants, however the facility limit on Warehouse 1 has been reduced from $140m to $60m. Currently CML is drawing approximately $40m from this facility and is working with the warehouse provider to create a notes structure to facilitate an investment from AOFM or another party, on similar terms to the warehouse provider.
  Facility limit $60m, current headroom is approximately $20m

- Warehouse 2, Invoice and Trade Finance – Extended to 31st May 2021, no material change to pricing, covenants or facility limit.
  Facility limit $47m, current headroom is approximately $25m

- Warehouse 3, Equipment Finance - Extended to 31st May 2021, no material change to pricing, facility limit or covenants, with the exception of a concession from the warehouse provider with agreement to fund clients offered repayment deferral as a separate pool so that ageing covenants are not impacted.
  Facility limit $133m, current headroom is approximately $50m

There remains approximately $100m of headroom across warehouse and other funding facilities at present and CML is working with AOFM and other parties to further increase capacity, in anticipation of business growth.

ABN: 88 098 952 277
Level 11, 201 Miller Street, North Sydney NSW 2060

CML is actively working on retirement/replacement of some expensive legacy funding arrangements, including approximately $20m of mezzanine funding in its warehouse facilities and a $25m bond. Completion of this is expected in the first quarter of FY'21 and will reduce annual interest costs by circa $1m.

FY'20 Guidance & FY'21 Outlook

Based on modest assumed impairment to the Equipment Finance portfolio, CML anticipates FY'20 EBITDA in the range $19.5m to $20.5m and NPATA in the range of $7.5m to $8m.

CML anticipates paying a full year dividend in the range 1.75 to 2 cents per share, fully franked.

Daniel Riley, CEO of CML said *"CML provides robust forms of secured lending to assist businesses in all stages of their life cycle, with a history of supporting businesses during periods of economic downturn. We believe market conditions for invoice finance will be favourable as the economy opens up and as businesses consider working capital requirements to manage the costs associated with recent business disruption, reduced availability of Government assistance and the investment required to return to full operating capacity. CML is uniquely positioned to increase customer numbers during economic uncertainty and can quickly ramp up facilities to meet client funding requirements as business conditions improve and they return to growth."*

Sincerely,

Daniel Riley
CEO

Approved for release by the CML Board.

ABOUT CML GROUP

CML provides finance to SME businesses.

CML's primary service 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 customers (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 include trade finance to assist clients finance purchases, as well as equipment finance to assist SME's with capital expenditure on items required to operate their business.