22 February 2018

CML Group Limited (ASX:CGR)
("CML" or the **"Company)**

Half Year 2018 Results & Acquisition

First Half (1H'18) Highlights

CML is pleased to report a strong Half Year 2018 result compared to the same period last year, with the key highlights being;

- Invoices funded up 16% to $581m
- EBITDA up 31% to $7.8m
- NPATA up 86% to $2.6m
- Underlying EPS (based on NPATA) up 50% to 1.5cps
- Dividend of 0.75 cents per share declared, up 50%
- FY'18 EBITDA Guidance of in excess of $15.5m reaffirmed (before acquistion)

CML is pleased to report a substantial uplift in earnings in 1H'18 compared to the same period last year, with EBITDA from continuing operations of $7.8m up 31% on the prior corresponding period. NPATA of $2.6m is up 86% on the prior corresponding period (1H'17: $1.4m) and as a result the Company has increased the interim dividend by 50% to 0.75 cents per share (1H'17: 0.50cps).

The strong financial performance for 1H'18 was a result of increasing business volume from sales and marketing, on improved margin compared to the prior corresponding period. We anticipate continued growth momentum, assisted by technology developed recently to assist with client acquisition and retention, plus continued expansion of the sales team. In addition, the Company successfully launched into the equipment finance industry in early FY'18 and this is expected to contribute to earnings in 2H'18.

Based on the interim results, CML has reaffirmed its FY'18 EBITDA guidance of $15.5m+, which is before the acquisition also announced today.

Acquisition + FY'19 Outlook

CML is pleased to advise that it has acquired Thorn Group's Trade & Debtor Finance division for circa $39m in cash, which includes Goodwill, plus loan book funding of circa $35m. The key highlights of the acquisition include;

- It is a strong strategic fit with CML's existing business model
- The opportunity exists to extract significant operational synergies
- It is fully funded through CML's existing cash and debt facilities

As a result of the the acquisition CML is pleased to provide initial guidance for FY'19 of invoices purchased of circa $1.5bn and EBITDA of circa $19.5m.

CML Group

H1'18 Financials

A summary of CML's Half Year result is tabled below:

$m	1H'17	1H'18	pcp ∆
Invoices Purchased	**501**	**581**	*16%*
Finance	12.0	15.5	*29%*
Equipment Finance	-	0.3	*n/m*
Other	6.5	8.5	*32%*
Group Revenue	**18.5**	**24.3**	***31%***
Finance	6.2	8.3	*35%*
Equipment Finance	-	(0.1)	*n/m*
Other	0.6	0.4	*-33%*
Corporate	(0.8)	(0.9)	*-6%*
Group EBITDA	**5.9**	**7.8**	***31%***
D&A	(0.1)	(0.1)	*-34%*
Net Interest	(4.0)	(4.1)	*-1%*
Tax	(0.6)	(1.0)	*-67%*
NPATA	**1.4**	**2.6**	***86%***
*Non-recurring expenses**	*(0.6)*	*(0.9)*	
NPAT Reported	***0.7***	***1.7***	***143%***
Underlying EPS**	1.0	1.5	*50%*
EPS (cents per share)	0.6	1.1	*83%*
DPS (cents per share)	0.50	0.75	*50%*

* *Non-cash amortisation of identifiable intangible assets from acquisitions completed in FY'16 ($0.6m), plus unamortised costs ($0.3m) associated with a 5 year $10.4m convertible note issued in January 2015 and converted to equity early in October 2017*

*** Underlying EPS is based on NPATA*

Increasing Volume + Improving Margins

Invoices purchased during 1H'18 increased 16% to $581m compared to the same period last year and was achieved organically through successful sales and marketing. In addition to growth in invoice volume, CML has achieved margin improvement of 11% across 1H'18 compared to the same period last year, up from 2.4% to 2.7%. The combined increase in volume and margin is driving profit margin, with EBITDA up 31% compared to last year.

Growth momentum is strong, with recent technology developments and an expanded sales team expected to drive client acquisition through the balance of FY'18 and beyond.

Technology is assisting client acquisition and retention

During 1H'18, CML launched technology platforms, integrated with its client management software, to assist with client acquisition and retention. The new technology includes;

- **Online application** – the Cashflow Finance online application form was launched in November 2017, to assist with information flow from prospective clients and increase efficiency of client take-on.

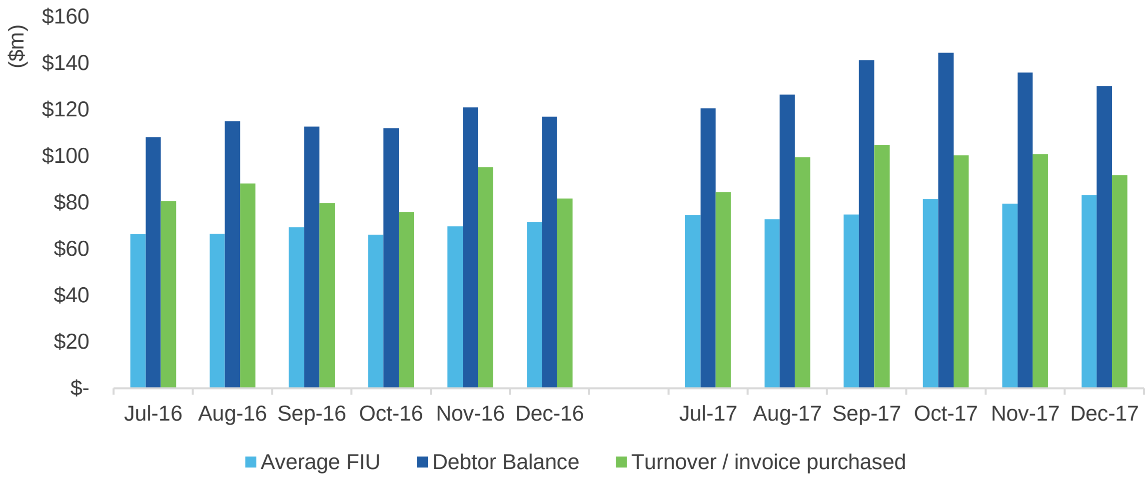
cashflow finance

- **Mobile App** – the Cashflow Finance app was launched in December 2017 and allows all clients to view their current funding availability from their mobile device and request a draw-down of funds.

Expanded sales and marketing team

During 1H'18, CML expanded its sales team to manage in-bound enquiries generated from its established marketing program. The expectation from the increased sales team is to improve the conversion rate of enquiries to clients with the aim to be generating 30% of new business from this source by the end of FY18.

Below are the key metrics for invoice finance in H1FY'18 compared to the previous corresponding period.



Comparison table for the six months to 31 December 2017 against the same period last year

	1H'17 ($m)	1H'18 ($m)	Growth
Invoices purchased	501	581	16%
Revenue	$12.0	$15.5	29%
Margin on invoices purchased	2.4%	2.7%	11%

Equipment Finance

CML launched an equipment finance division in July 2017. Operating under the name Cashflow Equipment Finance, this division settled over 50 transactions in the six months to 31 December 2017 and has gross receivables of over $7m. This division is performing ahead of expectations and we now expect to contribute to profit in H2'18.

Dividend

CML has declared a Final Dividend of 0.75 cents per share, fully franked. CML has a Dividend Reinvestment Plan (**DRP**) in place, with a discount rate of 5.0%, in which eligible shareholders may participate.

Outlook

FY’18

CML expects to exceed $1.1bn of invoices purchased in FY’18 and has cemented its position as the second largest listed non-bank invoice finance provider in Australia. Trading under the name Cashflow Finance, the company is quickly gaining recognition in the market for fast and reliable service delivered by a committed and experienced team.

CML is confident of continued earnings growth over the short and medium term, driven by;

- Increasing business volume - CML has an established sales team with a proven track-record of success and we will continue to develop and expand this team. CML’s marketing and technology initiatives are expected to contribute materially to new business in FY’18.
- Margin Improvement – we expected to benefit from a full 12 months contribution in FY’18 from the work completed on improving margins during FY’17.
- Stable cost base – CML is experiencing continued dilution of service delivery costs on increasing volume, with EBITDA margin in the core finance business increasing to 54% on revenue (1H’17: 52%). We anticipate continued dilution of service delivery costs on increasing volume, with the incremental cost of service delivery being less than 15% of new business revenue, excluding interest costs and costs associated with the increase in sales & marketing resources.

Subsequently, CML is comfortable in reconfirming guidance for FY’18 of EBITDA in excess of $15.5m (before the acquisition) versus $13.1m in FY’17.

FY’19

CML expects further growth in FY’19 to be driven by:

- Acquisition – CML has acquired Thorn Group’s Trade & Debtor Finance division for circa $39m in cash, which includes Goodwill, plus loan book funding of approximately $35m. The acquisition is a strong strategic fit with CML’s existing business model and presents a significant opportunity to grow the existing loan book. CML has the opportunity to extract operational synergies to further enhance EBITDA.
- Funding costs – CML expects that over the next 6 to 18 months, it will be able to transition from its current funding arrangements to majority institutional bank funding. This will result in a lower cost of funds relative to the current blended rate of 8.9%. It is expected that during the time period provided above, CML can reduce its funding cost by circa 3% to 4% plus reduced exposure to unutilised funds, which should have a positive material impact on earnings of approximately $3m before tax.
- New Products – the recently launched division, Cashflow Equipment Finance, is performing ahead of expectations and will make a positive contribution to earnings in H2’18 – 6-months earlier than anticipated.

Subsequently, CML is pleased to provide initial guidance for FY’19 of invoices purchased of circa $1.5bn and EBITDA of circa $19.5m.

CML Managing Director Daniel Riley commented, “CML has simplified and improved its business over the last 2 years and with a committed and experienced team, strong sales momentum, institutional bank funding in place and new service offerings gaining momentum, we are highly confident in our ability to deliver on our clear growth plan that is focussed on scale and profitability. We are confident, having made and successfully integrating acquisitions over the last few years that our strategy will be substantially bolstered by the acquisition announced today"

Sincerely,

Daniel Riley
CEO

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 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 include trade finance to assist clients finance purchases, as well as labour sourcing, project management and direct recruitment.