CML Group Ltd

Executive summary

- CML Group Ltd (CML) is an ASX-listed provider of factoring/receivables finance. With in-excess of $500m of invoices purchased in 1H17, CML is the second largest non-bank invoice finance provider in Australia, behind Scottish Pacific. The group has a market capitalisation of $34.5m as at 29 May 2017, and an equity value of $44.9m – CML has an additional $10.4m of ASX-listed convertible notes
- The group has two bond lines; $40m of 8.00% fixed rate Notes due March 2022 and $25m BBSW+5.40% floating rate Notes due May 2021. CML has stated it will seek to replace its more expensive forms of funding (potentially the bonds) with cheaper wholesale finance. As such investors should be aware of the call structure. The next call date for both lines is in May 2018 at 104%. Please refer to Appendix 1
- The Notes are secured with a first ranking charge over the business and assets of the CML group which mainly comprise the receivables book and cash. Furthermore Noteholders are protected by two levels of over collateralisation. Firstly, CML typically only advances 80% against the invoice value, often less. Secondly, the portfolio of receivables is protected by an insurance policy covering losses greater than $5,000 for a maximum of 90% (in excess of the 80% maximum advance)
- CML has a highly experienced risk underwriting management team: Peter Toohey is Executive General Manager and has over 40 years of experience in banking and finance, with a specialisation in invoice financing for the last two decades; and Shannon Stelfox the National Operations Manager who has 23 years of invoice finance at Scottish Pacific
- CML has a tightly focussed credit approval process, which enables it to assess and approve new facility applications within 24 hours of receiving the relevant information. It is then possible to settle a new account within five working days
- One of the main risks associated with CML's business is operational, including the risk from fraud. To mitigate this risk as much as possible, CML has hired experienced, key operational personnel. The company believes that it has aligned credit policy and procedures with industry best practise
- The average client remains with CML for three years, which implies an annual churn rate of about 30%. There is pressure on CML to continue to on-board new clients
- As with any industry, there is a danger that new competitors could take market share and disrupt pricing. However, CML believes there are limited experienced factoring employees in the local market
- The quality of the receivables and level of bad debts would normally be expected to fluctuate with the strength of the domestic economy

Company description

CML Group Ltd (CML) is an ASX-listed provider of factoring/receivables finance. With in-excess of $500m of invoices purchased in 1H17, CML is the second largest non-bank invoice finance provider in Australia, behind Scottish Pacific.

The group has a market capitalisation of $34.5m as at 29 May 2017, and an equity value of $44.9m given CML has an additional $10.4m of ASX-listed convertible notes.

CML's primary service is 'factoring' or 'receivables finance'. Factoring is a financing method in which a business sells its accounts receivables/invoices at a discount to a third-party funding source to raise capital. CML provides a payment of typically up to 80% of a client's invoice in advance of payment from their customer (often 30 to 60 days). The company 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. This is a flexible source of credit that can be utilised in line with variances in sales volume.

Invoices funded are also covered by insurance. The current policies are from QBE and a subsidiary of Allianz, both of which cover all losses greater than $5,000 to a maximum of 90%. CML therefore has recourse to the end debtor, the financing client and ultimately the insurance policy.

A company structure diagram can be found in Appendix 2.

Recent developments

CML has made a number of transformational acquisitions, enabling it to gain scale quickly. It has also divested non-core businesses in order to focus on and redeploy capital to its invoice finance business. It has rebranded its acquisitions under the Cashflow Finance banner.

March 2017: CML enters into a $40m wholesale drawdown funding facility with ANZ bank.

August 2016: CML sold its payroll business, Lester Associates. The sale delivered approximately $3.5m in cash, of which $1.8m was for goodwill.

May 2016: CML purchased invoice financing business 180 Group. The consideration totalled $35.5m comprising $5.5m for goodwill and $30.0m to fund the acquired loan book.

March 2016: CML purchased Cashflow Advantage. The consideration totalled $13m and included $3m for goodwill and $10m to fund the acquired loan book.

Capital structure

The following table details CML's capital structure.

Figure 1: Capital structure (May 2017)

Facility	Security	Rate	Limit	Available	Maturity
Notes I	Senior secured	BBSW+5.40%	$25m	Nil	May 2021
Notes II	Senior secured	8.00%	$40m	Nil	March 2022
ANZ wholesale facility	Secured/limited recourse	BBSW+2.70%	$40m	Unknown	Unknown
Unsecured facilities	Unsecured	10.0%	$15m	Nil	Various
Convertible note	Unsecured	9.0%	$14m	Nil	2020

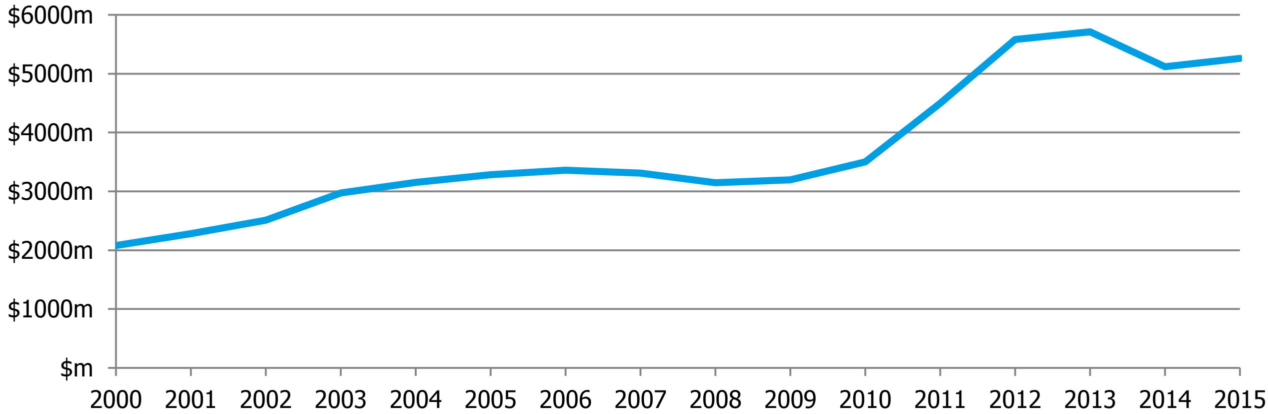
Source: FIIG Securities, Company reports

Credit strengths

Robust industry dynamics: According to the Debtor and Invoice Finance Association of Australia and New Zealand (DIFA), total factoring financing turnover in the Australian market increased by 7.6% to $1.5bn in Q415 from Q414. During 2015 total factor financing turnover increased by 2.7% to $5.3bn. 2016 numbers are not yet available however we understand levels have remained relatively stable.

In terms of historical volumes, factoring finance turnover was just $2.1bn in 2000, $3.3bn in 2005 and $3.5bn in 2010. As this chart below shows there was a slight reduction in overall volumes post the GFC but previous levels were regained within three years.

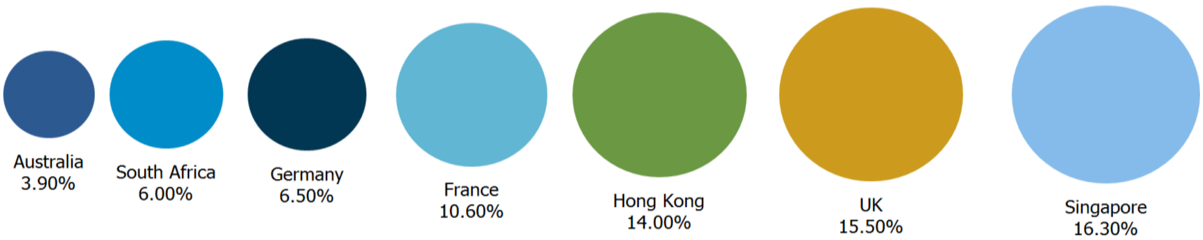
Figure 2: Australian factoring market turnover per annum



Source: Debtor and Invoice Finance Association of Australia and New Zealand Inc.

Furthermore, there is considerable room for addition growth in the market. Australia's penetration of the invoice finance market is only 3.9%. This compares to Germany at 6.5% and the UK at 15.5%.

Figure 3: Illustrative invoice finance market penetration



Source: Factor Chain International Annual Review 2015

Leading market position: CML is the second largest specialised (i.e. non-bank) debtor finance company in Australia. CML has approximately a 22% share of the Australian factoring market based on client numbers or 14.5% based on receivables under management. Scottish Pacific has about a 50% market share.

Figure 4: Top four non-bank debtor finance companies

Company	Loan book	Comments
Scottish Pacific	~$1.0b	Scottish Pacific has consolidated the large end of the non-bank space and the small end of the bank space (note: the Scottish Pacific figure includes large invoice discounting facilities as well as factoring facilities)
CML Group	~70m	CML is consolidating the smaller end of the non-bank space.
Cash Resources Australia	~$40m	CRA was purchased by the Thorn Group about two years ago
MoneyTech	~$37m	

Source: FIIG Securities, Company reports

CML is primarily competing at the smaller invoice factoring end of the market against the likes of Scottish Pacific and various other small specialist lenders (Key Factors, Moneytech, Cash Resources Australia). The main competing products to receivables financing include bank overdrafts and commercial bills. The table below illustrates how CML is positioned in the market compared to other direct competitors (Tier 2) and Tier 1 institutions that target the higher end of the market.

Figure 5: Debtor finance company comparison

	CML	Tier 2	Tier 1
Minimum client revenue	$0.5m	$0.5m	$2m
Fees charged*	10-12%	10-12%	7–10%
Financing made available	$0.1 -2.5m	$0.1 -5m	$0.5 -$20m+
Quick review & response to applications	✓	✓	✗
Trade credit insurance	✓	✗	✗
Managed accts receivable & collections	✓	✓	✗
Credit checks on all new customers	✓	✓	✗

Source: FIIG Securities, Company reports
**Interest on funds advanced. Service fees are charged in addition to interest.*

Highly experienced risk underwriting management team: Greg Riley, Chairman and Daniel Riley, CEO have been with the company since its inception in 2002. In addition to Greg and Daniel, who both have relevant experience in the industry, it is critically important in a business such as CML that it has experienced managers with high levels of operational expertise.

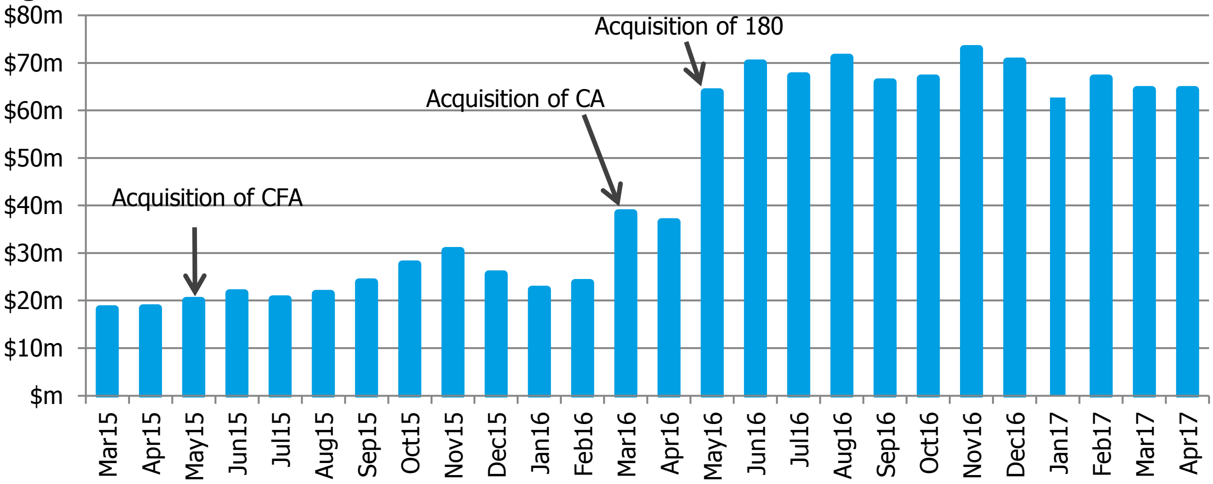
In this regard, Peter Toohey is Executive General Manager and has over 40 years of experience in banking and finance, with a specialisation in invoice financing for the last two decades. This included establishing a new division within Scottish Pacific, and he was part of Scottish Pacific's seven member national executive. Prior to this, he was Queensland State Manager for Bibby. Shannon Stelfox is National Operations Manager and has 23 years of invoice finance at Scottish Pacific and was the Operations Manager of their aforementioned new division.

Client experience: Management believes that one of the comparative advantages of CML's business model is its tightly focussed credit approval process, which enables it to assess and approve new facility applications within 24 hours of receiving the relevant information. It is then possible to settle a new account within five working days. This speed is very well regarded by CML's introducers and is often vital to customers who require timely access to funding. CML similarly is also able to promptly decline applications (and clearly communicate the reasons for their decision), which is an equally important attribute for their introducer network.

Furthermore, while still obtaining all the relevant information, CML management believes that its application criteria are simpler for clients to comply with (see Appendix 3 for details on CML's process).

Increased scale and diversity of the loan/receivables book: Prior to the acquisition of 180, CML's loan book size was approximately $38m, consisting of 232 clients. The average loan size was $153,000, with the maximum exposure of $1.7m. Post the 180 acquisition, CML's loan book has been further diversified. CML has more than 350 clients with an average loan size of $184,000 and maximum exposure of $1.7m. At 30 April CML had a loan book of $66m (Figure 6) while total receivables were over $110m.

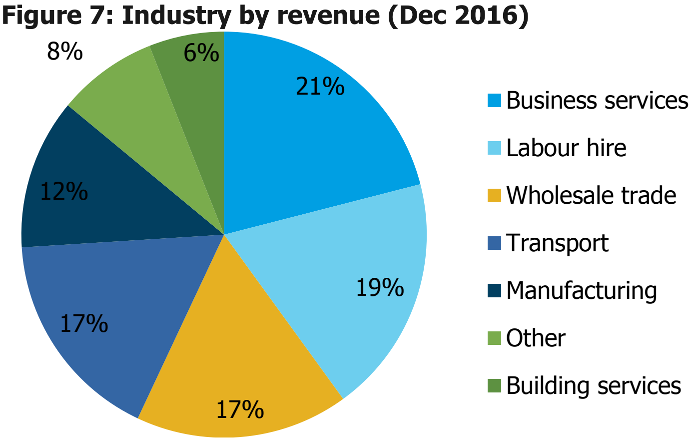
Figure 6: Loan book



Source: FIIG Securities, Company reports

As below the book is also diversified by industry, with little exposure to the mining sector.

Figure 7: Industry by revenue (Dec 2016)



Source: FIIG Securities, Company reports

Over collateralisation: The Notes are secured with a first ranking charge over the business and assets of the CML group – mainly comprising the receivables book and cash. In the event of a default, recovery is anticipated to be relatively high.

Furthermore Noteholders are protected by two levels of over collateralisation. Firstly, CML typically only advances 80% against the invoice value, often less. At December 2016 the loan to value ratio was 59.5%. The covenant structure ensures that the Noteholders effectively only advance a percentage of that at up to 90% as CML builds to scale, subject to dynamic reserving. The structure also includes cash reserve requirements.

Secondly, the portfolio of receivables is protected by an insurance policy covering losses greater than $5,000 for a maximum of 90% (in excess of the 80% maximum advance). A condition of the Notes is that at all times an insurance policy from an insurer rated A- or better must be in place.

As such, CML has recourse to the end debtor, the financing client and ultimately the insurance policy. The insurance only covers default (insolvency) of the client not fraud.

Access to capital markets: ASX-listed CML has demonstrated the ability to raise equity to help to finance acquisitions. CML has also successfully completed three bond and one convertible bond issue. CML continues to maintain access to unsecured debt facilities, and has recently announced the establishment of a wholesale finance facility.

Credit weaknesses

Call risk: CML has made it clear on multiple occasions that it will seek to replace its more expensive forms of funding (including Notes I and II) with cheaper wholesale finance as it reaches scale. Post the 180 acquisition CML now has a sizeable loan book and has gained a wholesale finance facility from ANZ in March 2017.

The ANZ facility priced at 2.7% over BBSW compares to the floating rate note at 5.4% over and is much cheaper that CML's current average cost of funds which is around 9%. Every 1% decrease in average funding costs on CML's current loan book of approximately $70m will generate ~ $0.7m before tax in additional annual earnings.

CML stated that it expects to progressively utilise the ANZ facility for growth and to replace existing facilities as maturity dates approach. Further repayment the Notes I and II may be attractive, given the bond terms restrict dividend payments greater than 50% of NPAT. CML has the ability to call its issues in May 2018 at 104%. Alternatively, it may choose to seek to refinance them earlier by offering a higher premium.

Operational risks and fraud: One of the main risks associated with CML's business is operational, including the risk from fraud. To mitigate this risk as much as possible, CML has hired experienced, key operational personnel. The company believes that it has aligned credit policy and procedures with industry best practise. Furthermore these risk are somewhat mitigated as CML has grown and it operates a more diversified business than at the time of original bond issuance.

With regard to this risk, we refer investors to the Investment Memorandum:

"To the date of this Information Memorandum CML Group has incurred [three] bad debts to the value of approximately $130,000. CML made successful claims for each of these under the trade credit insurance policy receiving total payments of approximately $96,000."

We also refer investors to the supplementary Investment Memorandum:

"All factoring companies are exposed to the risk of fraud from its clients. During FY16 CML experienced an isolated and sophisticated fraud whereby one client presented fraudulent invoices. This issue was picked up by CML's internal processes within 6 weeks. CML moved quickly to call its facility and the associated personal guarantee as well as lodging a caveat over the Director's property. CML expect the net loss to be no more than $0.5m.

Subsequently, CML has moved to reinforce and enhance its internal procedures including employment of a new Compliance Manager and a new and experienced Risk Manager to increase internal audit style procedures. Further, CML has conducted a complete review of all clients and debtors with an exposure > $50k and is confident that this is an isolated issue. The net loss is expected to be within CML's provision for bad debts. "

High churn rate: The average client remains with CML for three years, which implies an annual churn rate of about 30%. There is pressure on CML to continue to on-board new clients. CML's success in achieving this growth could impact the profitability of the business. As new clients are targeted, there is a natural conflict between growth and the maintenance of credit standards. CML believes that it has the necessary processes in place to manage this risk.

New competitors: As with any industry, there is a danger that new competitors could take market share and disrupt pricing. However, CML believes there are limited experienced factoring employees in the Australian market, thus hindering the entry and operational performance of any potential new entrant, including on line-invoice financiers. Furthermore it appears that Scottish Pacific may decrease as a competitor in CMLs part of the market as it is positioning itself more as an alternative to bank financing.

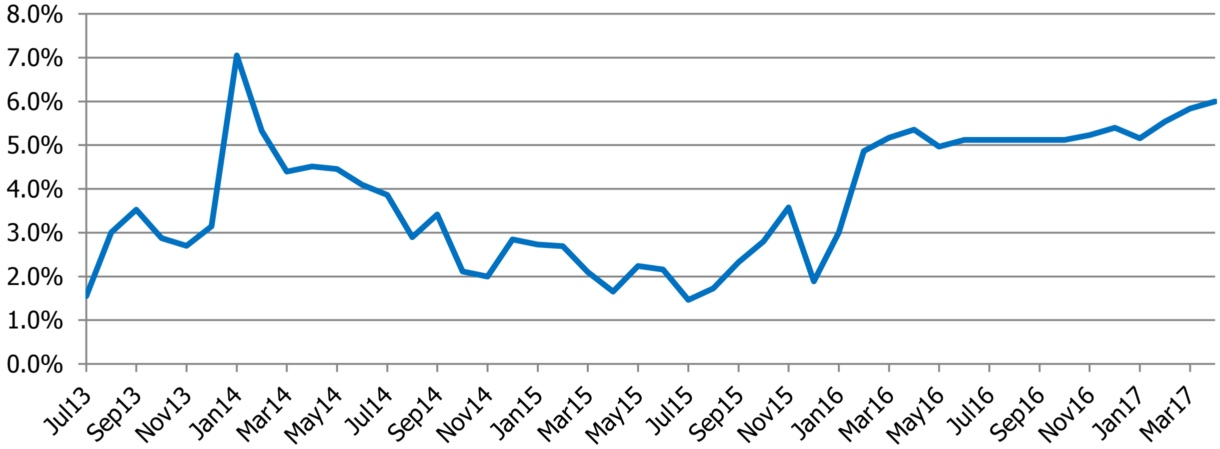
Key man risk and hiring experienced staff: As previously noted there are limited numbers of operationally experienced employees in the Australian marketplace. This makes it difficult to find appropriate new staff. CML's Executive General Manager is contracted to the company until June 2019, with an option to extend. The National Operations Manager has similar contractual conditions.

Relatively small company: CML only has a market capitalisation of $34.5m as at 29 May 2017, and the associated limited financial flexibility. In mitigation, CML has continued to grow strongly and has successfully integrated several acquisitions. Furthermore, CML has demonstrated that it has access to various capital markets.

Economic cycle: The quality of the receivables and level of bad debts would normally be expected to fluctuate with the strength of the domestic economy. A recession would likely result in increased bad debts (assuming no material adjustments to credit policies and standards).

The below chart illustrates the arrears rate of accounts greater than 90 days overdue as a percentage of the receivables book.

Figure 8: Arrears >90 days



Source: FIIG Securities, Company reports

Arrears performance feeds directly into CML's reserving requirements with all 90 day plus delinquent arrears required to be 100% cash backed. CML is protected from the adverse impact of any potential rise in arrears during economic downturn by having recourse firstly to the debtor, the client and if necessary to its credit insurance cover.

Most bad debt can be claimed against under CML's trade credit insurance policy. In addition, CML has the ability to generate higher fees (e.g. liquidated damages) if one of its clients defaults by going into voluntary administration, liquidation, etc.

Convertible bond refinancing: CML has a $10.4m convertible bond that has a maturity date of 29 January 2020. If CML's share price does not reach the 20-day VWAP of $0.35, then the company cannot at its discretion convert the notes to equity. In this scenario, CML would have to find an alternative refinancing option.

Financial summary

Forecasts below are prepared by FIIG and are considered to be a conservative debt case model.

P&L summary ($m)	**FY15**	**FY16**	**1H17**	**FY17***	**FY18***	**FY19***	**FY20***	**FY21***
Total Revenue	**23.3**	**27.1**	**18.5**	**48.5**	**53.4**	**58.7**	**64.6**	**71.0**
Growth YoY	*-83%*	*16%*	*53%*	*162%*	*10%*	*10%*	*10%*	*10%*
Total expenses	22.9	21.6	12.5	37.4	41.1	45.3	49.8	54.8
EBITDA	**0.4**	**5.5**	**6.0**	**11.1**	**12.2**	**13.4**	**14.8**	**16.3**
Depn & Amort	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
EBIT	**0.3**	**5.4**	**5.9**	**11.0**	**12.1**	**13.3**	**14.6**	**16.1**
Interest	1.2	3.9	4.0	6.4	6.9	7.7	8.2	8.4
NPBT	**(0.9)**	**1.4**	**1.9**	**4.5**	**5.2**	**5.6**	**6.5**	**7.7**
Extra ordinaries	0.8	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0
Tax	0.2	0.5	0.6	1.4	1.5	1.7	1.9	2.3
NPAT	**(0.3)**	**0.0**	**1.4**	**3.2**	**3.6**	**3.9**	**4.5**	**5.4**
Balance sheet($m)	**FY15**	**FY16**	**1H17**	**FY17***	**FY18***	**FY19***	**FY20***	**FY21***
Cash	14.1	14.7	19.6	20.0	8.7	8.0	11.4	12.5
Account receivable	39.5	114.6	120.6	144.7	173.7	208.4	250.1	300.2
PP&E	0.2	0.2	0.4	0.2	0.2	0.2	0.2	0.2
Intangibles	8.9	16.9	14.8	15.2	15.2	15.2	15.2	15.2
Other	3.6	10.1	1.6	10.1	10.1	10.1	10.1	10.1
Total assets	**66.4**	**156.5**	**157.0**	**190.2**	**207.9**	**241.9**	**287.0**	**338.1**
Accounts payable	21.3	57.2	51.3	72.8	80.0	88.0	96.8	106.5
Finance leases	0.0	0.0	0.5	0.5	0.5	0.5	0.5	0.5
Senior secured debt	25.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Unsecured debt	0.0	0.0	14.9	14.9	24.9	49.9	84.9	124.9
Convertible notes	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Other liabilities	0.2	9.8	(0.6)	9.8	9.8	9.8	9.8	9.8
Total liabilities	**56.5**	**142.0**	**141.1**	**172.9**	**190.2**	**223.2**	**267.0**	**316.7**
Total equity	**9.9**	**14.5**	**15.9**	**16.8**	**17.7**	**18.7**	**20.0**	**21.4**
Margin analysis	**FY15**	**FY16**	**1H17**	**FY17***	**FY18***	**FY19***	**FY20***	**FY21***
EBITDA Margin	1.9%	20.3%	32.4%	22.9%	22.9%	22.9%	22.9%	22.9%
EBIT Margin	1.4%	19.8%	32.0%	22.6%	22.6%	22.7%	22.7%	22.7%
Expenses (% Revenue)	98.1%	79.7%	67.6%	77.1%	77.1%	77.1%	77.1%	77.1%
Credit statistics	**FY15**	**FY16**	**1H17**	**FY17***	**FY18***	**FY19***	**FY20***	**FY21***
Total debt	35.0	75.0	90.4	90.4	100.4	125.4	160.4	200.4
Net debt	20.9	60.3	70.8	70.4	91.6	117.4	149.0	187.9
EBIT interest cover	0.3x	1.4x	1.5x	1.7x	1.7x	1.7x	1.8x	1.9x
EBITDA interest cover	0.4x	1.4x	1.5x	1.7x	1.8x	1.8x	1.8x	1.9x
Total debt/tangible assets	55.8%	51.2%	58.2%	50.2%	50.8%	54.1%	57.9%	61.1%

*Source: FIIG Securities, Company reports. *Forecasts*

Latest results:

- Revenue for 1H17 increased 53% to $18.5m, driven by growth in the value of invoices purchased. This was due to the full period contribution from the Cashflow Advantage and 180 Group acquisitions
- EBITDA margin for 1H17 improved to 32.4% from 17.4% in 1H16, as additional services were offered and new fee structures were introduced to acquired clients
- EBITDA interest cover remained stable at 1.5x. Credit metrics are likely to improve as the company benefits from a full year's contribution and synergies from acquisitions. The negative carry from fully drawn but unutilised debt will also abate
- In May 2017, CML upgraded it earning guidance for FY17. The company expects EBITDA to be in excess of $12m, compare to the previous guidance of $10.6m and FY16 EBITDA of $5.3m.

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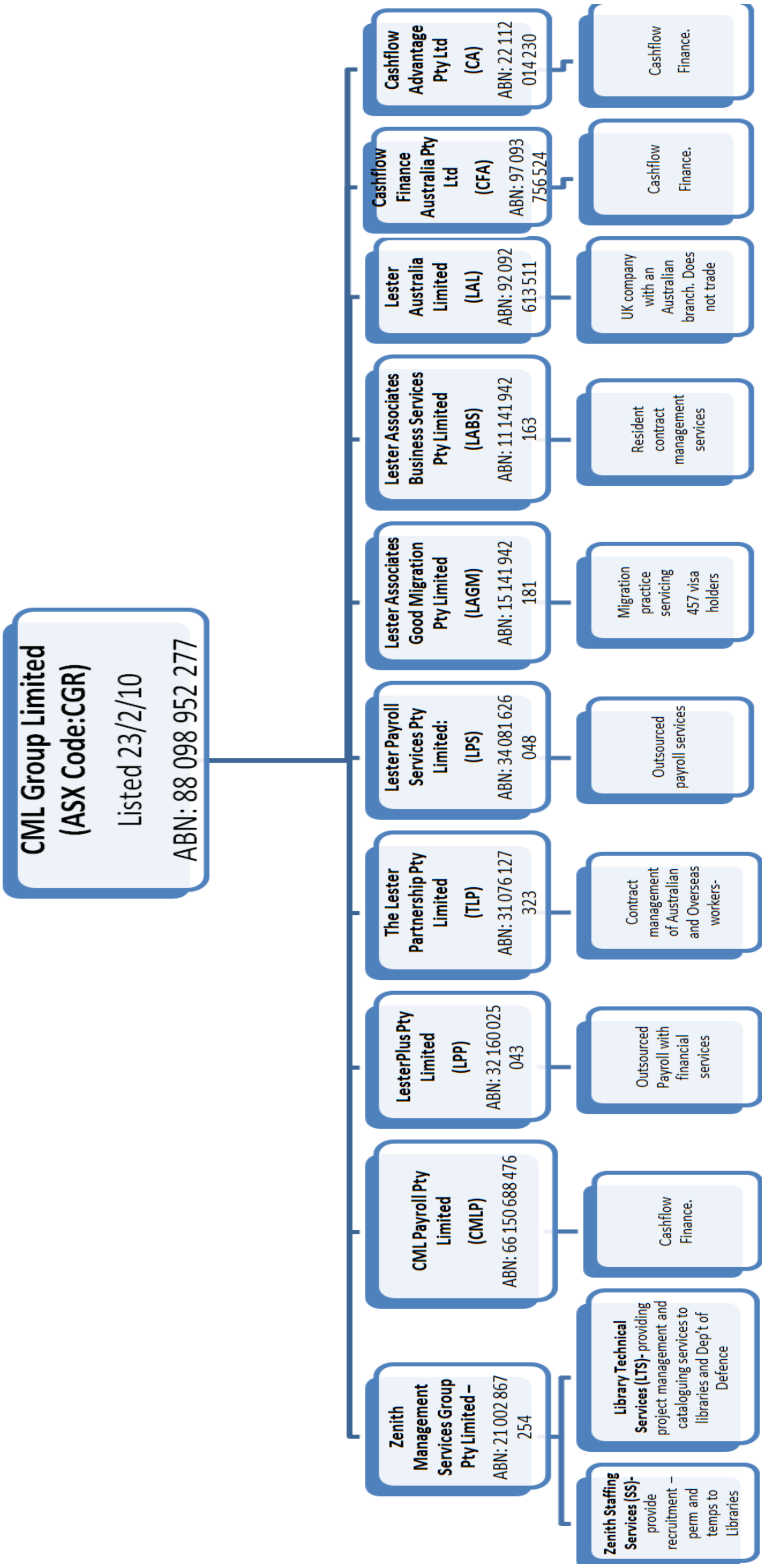
Appendix 1: Summary of the terms of the Notes and company structure

This section provides an overview only and investors are advised to refer to the Information Memorandum for full details of the terms and conditions.

Issuer	CML Group Limited
Guarantors	Issuer and guarantors must represent at least 90% of EBITDA and total tangible assets
Offer size	$40m
Description of Notes	Senior secured medium term notes
Ranking	First ranking charge over CML Group Limited and its material subsidiaries
Minimum parcel size	$10,000
Face value of Notes	$1,000
Interest rate	Fixed rate, monthly in arrears
	8.00% until the par call date
	9.50% from the par call date until the final maturity date
Par call date	18 March 2021
Final maturity date	18 March 2022
Issuer call option	18 May 2018 at 104%
	18 May 2019 at 103% 18 May 2020 at 102%
Change of control	Investors have the option but not obligation to put the bonds back to the issuer at 101%
Receivable eligibility	A variety of conditions as detailed in the Investment Memorandum including a requirement that they be accepted for coverage by an appropriate trade credit insurer, subject to transitional arrangements
Required reserve	In line with standard ratings agency methodology for calculating credit enhancement in trade receivables facilities
Disclosure requirements	The Issuer shall make available to the Note Trustee and the Lead Manager monthly investor reporting on the performance of Eligible Receivables and compliance with covenants
Covenants	• Negative pledge
	• Limitations on new financing (total of all available debt to total tangible Assets is not more than 90.0%)
	• Dividend restrictions with distributions not exceeding 50% of NPAT
	• Restrictions on Asset Sales and application of proceeds of such sales
	• Maintenance of Minimum Asset Base
	• Maintenance of Existence
	• Delivery of Compliance Certificates
	• Compliance with Law
	• Maintenance of Appropriate Insurances
Unwind events	Failure to comply with covenants will trigger an unwind event which forces the issuer to enter an orderly unwind of its portfolio by reducing Senior Secured Debt (currently only the Notes) until covenants are complied with
Effect of unwind event	If an unwind event subsists unremedied for 30 days or greater, the Issuer will be prohibited from purchasing further receivables and all principal repaid on existing receivables will be used to repay debt
Event of default	• Failure to pay (i.e. Non-payment of interest or principal)
	• Cross default to other debt, above $5m
	• Enforcement against assets
	• Insolvency/winding-up/creditor arrangement
	• Invalidity of Notes/Guarantee
	• An Unwind Event subsisting unremedied for greater than 90 days
	• No material litigation, above $5m
	• Cessation of business

Source: FIIG Securities, Information Memorandum

Appendix 2: Company structure



Source: FIIG Securities, Company reports

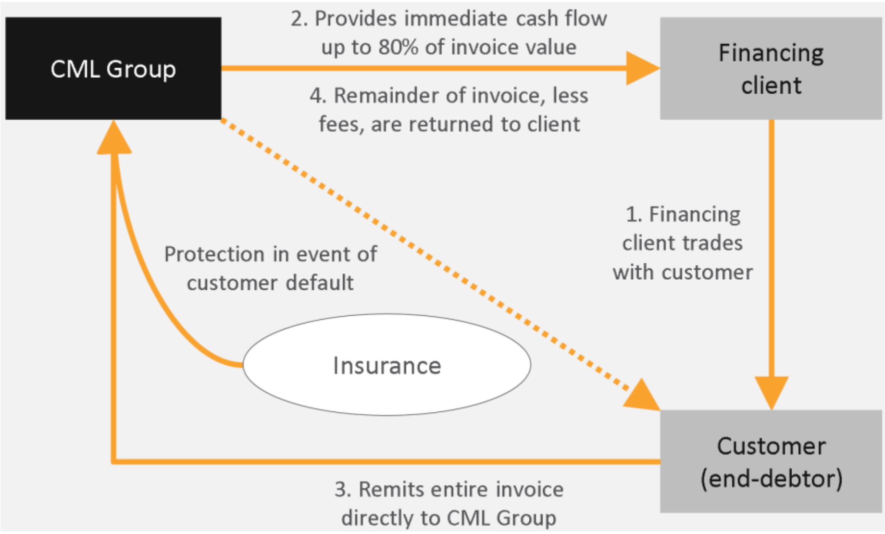
Appendix 3: CML's business model

CML provides full service factoring, which means it purchases clients' accounts receivables and administers all of the invoice and collections management. CML only provides disclosed factoring services, meaning that every invoice sent out by their clients clearly states that that money is owed to CML (or one of its nominated subsidiaries).

CML's clients are mainly from business services and labour hire industries. Business services refers to broad industries like plant hire, line marking, security services, printing and electrical services.

The following figure illustrates the funding process.

Funding process



Source: FIIG Securities, Halcyon Corporate

1. CML's client ('financing client') trades with their customer ('end debtor') and issues an invoice to the end debtor, with CML's title to the invoice clearly disclosed.
2. CML's financing client presents a copy of their invoice to CML, which provides (after due diligence) funds of typically up to 80% of invoice face value, removing cash cycle pressures for the client. The company will consider an additional advance to a client (above the usual 80%) on occasion, for an additional fee and when there is adequate security. However only that portion of the invoices funded to 80% will be considered as collateral, or Eligible Receivables, for the bond transaction.
3. CML takes on the accounts receivable role on behalf of their client. CML issues statements to their client's customers ('end debtor') with CML's title to the invoice clearly disclosed and assumes the administration and collection responsibility. CML legally owns the receivables and the 'end debtor' remits funds directly to CML. The funding therefore is collateralised as clients are only offered financing when security over the receivables is taken. Further there is over-collateralisation given typically only 80% of the invoice is funded.
4. When CML is paid by the 'end debtor' the remaining 20% of the invoice less CML's fees is returned to the 'financing client'.
5. In the event an invoice isn't paid CML has recourse to the end debtor as well as the financing client, with insurance cover against an act of insolvency by the end debtor.

Credit assessment process

CML's credit policy and procedures have been developed to encompass industry standard practice. Further, as part of the FIIG's due diligence, PwC has been engaged to assess policy and procedures, as well as the top 20 loans and a further 5 random loans to assess their rigor and adequacy.

CML's has two key focuses in terms of credit assessment:

1. Analysis of the finance client and obtaining security over its assets and guarantees from its directors
2. Ensuring the enforceability of CML's rights to collect from the end debtors on invoices they purchase

Items to note:

- CML require Revenue, EBIT, Profit and Balance Sheet disclosures from all potential finance clients as part of their application process which are referenced against Veda, D&B and PPSR reports as well as requiring access to these businesses tax portal information with the ATO for verification. Alerts are set in these systems to ensure that CML has visibility to any changes in circumstances.
- CML require security over the assets of their finance clients, including first ranking security over accounts (receivables) as well as Directors' guarantees.
- CML have established criteria around which industries they take exposure. Specifically they no longer lend to the construction sector due to some contracts containing right to set off against future non-performance - meaning enforceability of invoice receivables can be effected
- CML sets explicit credit limits against each end debtor, which are monitored and tracked through the software system to ensure concentrations are managed across the entire book (not just within each finance client's ledger). The company is required to obtain explicit consent from their insurer (Euler Hermes and QBE) for all credit limits over $50,000. This consent requirement provides oversight to their origination process.
- The Executive General Manger or National Operations Manager of CML must sign off on all new accounts.

Verification and collection process

The processes employed by CML satisfy their insurer's requirements for collections rigour, while not undermining their finance clients' relationship with their customers. When invoices are submitted to CML for funding, a portion is fully verified by confirmation with the end debtor. Currently this verification is undertaken on about20% of the invoices submitted which is both in line with industry standards and considered statistically robust.

The collection process runs off a 90-day enforcement cycle as follows:

- 30 days: A statement is sent
- 45 days: A reminder statement is sent
- 60 days: The end debtor is called and another statement is sent
- 65 days: Another call is made
- 75 days: Funding is stopped and a statement is sent

CML (excluding 180) has 10 staff that undertake the verification and collection process. A separate bank account is established for each finance client to whom each end debtor is directed to pay into allowing for easy reconciliation of monies received. All processes relating to origination and servicing of the invoice receivables are run through the Factorsoft software platform. This is a USA based factoring platform (used also by Bibby Europe), and allows for visibility through to delinquency and concentrations across the book and provides for industry leading collections management.

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