ASX ANNOUNCEMENT – CUP
23 February 2017

Countplus Limited FY2017 Half Year Results

Profit from Operations before Tax: $4.2m (up 9%) – Excluding the revaluation of our investment in Class and gain on deferred consideration

The Directors of Countplus Limited (CUP) report a Consolidated Profit from Operations before Tax result of $2.9m (down 73%) and a Net Profit after Tax result of $2.1m (down 67%). This movement is due to the fair value loss on our investment in Class Limited of $1.6m (after tax) compared to a fair value gain of $4.7m (after tax) in the prior half year. The result has also been impacted by a non-cash $780,000 impairment expense for an accounting subsidiary and a $1.1m provision relating to a TFS review and remediation program. Profit attributable to Owners of Countplus Limited was $1.5m (down 75%).

Excluding the financial impact of the fair value revaluation of the investment in Class and a gain on deferred consideration (prior year – nil), our profit from operations (before income tax) has increased by 9% for HY 2017.

The Company declared its third quarterly dividend for 2016/17, of one cent per share, fully franked, payable on 15 May 2017.

The group maintains its diversified portfolio of businesses, represented in every mainland capital city of Australia and in a number of regional centres. Countplus is an aggregation of 19 businesses and their subsidiaries across Australia; 16 accounting/business advisory firms, one financial planning specialist, a property broking group and a financial planning dealer group.

1. Management Comment

A market update was issued on 17 February 2017 which advised that there were developments concerning Total Financial Solutions Australia Ltd (TFSA) and ASIC's licence conditions which, as previously disclosed, relates to the action of one adviser.

TFSA is managing a review and remediation program with ASIC in relation to this former adviser. TFSA is currently working with its insurers to obtain indemnity in the event that any detriment that may have been caused to any client as a result of the advice provided is rectified.

The objective of the remediation program is to evaluate the appropriateness of the advice provided and if the advice is found to be inaccurate, incomplete or inappropriate then TFSA is to restore clients' financial position back to the positon they would have been in but for the advice. As we are currently unable to determine the quantum of the detriment for unassessed clients, the Board believes that it is prudent at this point in time to reduce the dividend. The Board has previously advised the market that the dividends will be reviewed every 6 months in conjunction with our financial results.

The first half Profit from Operations before Income Tax was also impacted by the fair value loss on our investment in Class Limited, which is compared to a significant gain in the prior year following their successful IPO in December 2015. Countplus Limited together with its subsidiaries owned approximately 4.5% in Class Limited at 31 December 2016.
In August 2016 Countplus sold 1 million Class Limited shares for an average price of between $3.45 and $3.55. A further 110,000 shares were sold in September at an average price of $3.55. The total consideration (after transaction costs) was $3.9m. On 17 February 2017 Countplus sold a further 1 million Class shares for an average price of $3.04. At 22 February 2017 CUP owned approximately 3.6% in Class Limited.

2. Financial Highlights

		31 December 2016	**% Change**
1.	Total Net Revenue	$45 m	Down 1%
2.	Operating Profit (EBITA)*	$4.7 m	Down 63%
3	Profit from Operations before Tax	$2.9 m	Down 73%
4	Consolidated Net Profit after Tax	$2.1 m	Down 67%
5.	Profit Attributable to Owners	$1.5 m	Down 75%
6.	Basic Earnings per Share	1.35 cents	Down 75%
7.	Diluted Earnings per Share	1.35 cents	Down 75%
8.	Third Quarterly 1 cent Dividend declared payable 15 May 2017	Ex-date: 26 April 2017	Record date: 27 April 2017

*In accordance with Australian Accounting Standards the Consolidated Operating Profit (EBITA) includes the fair value adjustment relating to Class Limited shares which listed in December 2015. These shares have been valued at the 31 December price of $2.86 (compared to $3.30 at 30 June 2016) and $3.05 at close of business on 22 February 2017.

3. Acquisitions and Investments

3.1 Acquisitions made so far during the Half Year 2017

Since 30 June 2016 the following "tuck-in" acquisitions and investments have been completed:

- In July 2016, Countplus subsidiary Kidmans Partners Pty Ltd acquired 100% of the business assets of McPherson Financial Solutions Pty Ltd. A cash consideration of $466,400 was paid on settlement with the remaining expected balance, subject to performance, of $116,600 to be settled in two deferred payments.

- In November 2016, Countplus subsidiary Mogg Osborne Pty Ltd acquired 100% of the business assets of Brooks Accountants Pty Ltd. A cash consideration of $634,209 was paid on settlement with the remaining expected balance of $180,000, subject to performance, to be settled in one deferred payment.

- In December 2016, Countplus subsidiary The MBA Partnership Pty Ltd acquired 100% of the business assets of DFK Crosbie Pty Ltd – Gold Coast. A cash consideration of $1,136,521 was paid on settlement with the remaining expected balance of $478,497, subject to performance, to be settled in two deferred payments.

3.2 Other Investments – Class Limited

As at the balance date, the Company had a 4.5% interest in Class Limited, a listed self-managed superannuation platform. Class continues to enjoy significant growth in billable SMSFs on its platform, is profitable and paying dividends. This has been an outstanding investment for the Company following its successful IPO in December 2015. Refer to (1) above for current position.

3.3 Future Investments and Direct Equity Plan (“DEP”)

Countplus’ strategic objective to pursue growth through further business combinations. Merger & acquisition activities will in the short term generally be by way of “tuck in” acquisitions at the member firm level.

The Company has previously announced a Direct Equity Plan for Principals and Employees of its subsidiaries, whereby they will be able to acquire equity directly in the business in which they work. This is expected to promote retention of key employees, facilitate appropriate succession for Principals and better performance alignment. Countplus will retain control of these subsidiaries under the terms of the plan. This policy has not changed.

4. Analysis of Financial Results

4.1 Group Performance

The table below shows the consolidated performance for the group for the half year ending December 2016.

	Dec-16 $'000	Dec-15 $'000	% Change
Accounting Related Revenue	31,012	30,519	*1.6%*
Financial Planning Revenue (net)	9,896	10,267	*(3.6%)*
Property Related Income (net)	2,601	2,672	*(2.7%)*
Other Operating Revenue	1,493	2,061	*(27.6%)*
Total Net Revenue	**45,002**	**45,519**	*(1.1%)*
Non-cash Fair Value Adjustments *	-2,298	6,758	*(134%)*
Other Income	1,741	530	*228%*
Salaries & Employment (member firm)	-28,269	-28,673	*1.4%*
Salaries & Employment (head office)	-1,153	-1,233	*6.4%*
Premises Expense	-2,576	-2,607	*1.2%*
Depreciation Expense	-419	-479	*12.5%*
Impairment Expense	-780	-1,000	*22%*
Other Operating Expenses	-6,729	-6,636	*(1.4%)*
Total Operating Expenses	**-39,926**	**-40,628**	*1.7%*
EBITA before profit from associates	**4,519**	**12,179**	*(62.9%)*
Share of Profits from Associates	230	471	*(51.2%)*
Operating Profit (EBITA)	**4,749**	**12,650**	*(62.5%)*
Interest Expense (net)	-529	-646	*18.1%*
Amortisation Expenses	-1,334	-1,346	*0.9%*
Profit from Operations before Tax	**2,886**	**10,658**	*(72.9%)*
Income Tax Expense	-816	-4,426	*81.6%*
Consolidated Net Profit after Tax	**2,070**	**6,232**	*(66.8%)*
Other Comprehensive Income (net)	0	0	
Total Comprehensive Income net of Tax	**2,070**	**6,232**	*(66.8%)*
Profit attributable to:			
Owners of Countplus Limited	1,494	5,992	*(75.1%)*
Non-controlling interests	576	240	*140%*
	2,070	**6,232**	

* The non-cash fair value adjustment during Dec 2016 period relates to the revaluation of Class Limited shares.

4.2 Balance Sheet

	Dec'16	Jun'16	% Change
	$ '000	$ '000	
Current Assets	30,073	29,061	3.5%
Current Liabilities	20,630	19,293	(6.9%)
Current Ratio	1.46	1.51	
Non-Current Assets	85,829	90,456	(5.1%)
Non-Current Liabilities	35,072	37,469	6.4%
Net Assets	60,200	62,755	(4.1%)
Net Debt	19,752	19,277	(2.5%)

4.3 Revenues

Revenues are earned primarily from the provision of accounting and related services, but also include financial planning revenue, revenue from loans & equipment financing, insurance commissions and property sales commissions.

Accounting revenue was up 1.6% compared to prior period. Net financial planning revenue was down 3.6% over the period, principally due to the additional $1.1m in provisions for the TFS adviser matter. 16 Member Firms are franchisees of Count Financial, offering financial planning services.

Property and related services revenues now contribute 5.8% (2015: 5.9%) of total net revenue.

4.4 Expenses

Salary & employment expenses relating to member firms were down 1.4% primarily due to tighter cost control. Head office salary & employment expenses were down 6.5% in the first half due to previously announced discontinued activities.

Professional, service and consulting fees increased due to the TFSA review and remediation provisioning. Excluding the remediation provision, other operating expenses decreased by 12.8% over the prior period primarily due to reduced provisioning for doubtful debts and other cost controls.

4.5 Share of Profits from Associates

This is primarily the group's share of profits from 5 associates. The largest associate, at 32% equity interest, is South Australian professional services firm, Hood Sweeney. The share of profits from Associates is down due to extra provisioning in one of our associates.

4.6 Amortisation Expense

Amortisation expense of $1.3m (down 0.9%) relates primarily to an accounting requirement to write down the value of intangible assets, acquired client relationships and adviser networks (non-cash), over their expected lifetime. A conservative diminishing value method is used to amortise these assets, ensuring that the proportional impact of this line item should reduce over time.

5. Capital Management

5.1 Net Debt

Net debt as at 31 December 2016 was $19.7m, which is 2.5% higher than prior period. Member Firms remain strong cash generating units and its expected that any future borrowings will be for acquisition purposes.

5.2 Dividends

The third quarterly dividend of one cent per share, fully franked, payable on 15 May 2017 was declared on 22 February 2017.

Dividends Paid 2016/17	Cents per share	Paid
1st Interim Dividend	2 cents	15/11/2016
2nd Interim Dividend	2 cents	15/02/2017

Dividend Declared 2016/17	Cents per share	Payable
3rd Interim Dividend	1 cent	15/05/2017

The final dividend for 2016/17 will be confirmed prior to the end of the financial year and is expected to be paid on 15 August 2017.

5.3 Employee Equity Rewards

Countplus rewards its employees for outstanding performance with equity under an Employee Loan Funded Share Plan and Employee Loyalty Plan:

- ***Key Staff Loan Funded Share Plan***
  Directors/ Principals and Senior Managers of Member Firms who achieve earnings growth targets may qualify for an allocation under the group's loan funded share plan.

- ***Employee Loyalty Plan***
  Employees of those Member Firms that achieve earnings growth target and have 12 months' service or more, will be awarded an allocation of $1,000 worth of Countplus shares, prorated for part time employees, under a tax-exempt employee loyalty plan. These shares are granted in April each year.

6. Material Developments Post the Reporting Period

On 17 February 2017, the company disposed of 1,000,000 Class Limited shares at $3.04 per share. The cash received was $3m (after transaction costs). Our current shareholding in Class is 3.6%.

On 24 February 2017, Countplus declared its third quarterly, fully franked, dividend for 2016/17 of 1 cent per share, payable on 15 May 2017 (record date: 27 April 2017).

Resignation of CEO/Managing Director

Mr Phil Aris has advised the Company of his intention to resign as CEO/Managing Director at the close of business today. The Directors wish to thank Phil for his nine years with the Group, the first seven years as CEO of TFS. The Company expects to make an announcement for a replacement in the very near future.

There have been no further material developments post the reporting period.

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