Office Level 17, 1 Margaret Street, Sydney NSW 2000
Postal GPO Box 1453, Sydney NSW 2001
www countplus.com.au
ABN 11 126 990 832

T (02) 8488 4500
E info@countplus.com.au

CountPlus
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ASX ANNOUNCEMENT – CUP

CountPlus Limited FY2017 Preliminary Financial Results

- Dividends expected to be declared in 2018 based on 31 December 2017 half year results
- TFSA settles with indemnity insurer
- Net Operating Profit Before Tax $2,163,000
- Capital recycling program underway, debt significantly lower

The Directors of CountPlus Limited (CUP) report a consolidated net profit before tax of $2,163,000 for the year end 30 June 2017.

A letter to shareholders is being sent offering a report into the new operational and strategic initiatives now being driven by the company. A copy of this shareholder letter has been released to the ASX.

Core underlying operating profit (after excluding the effect of the investment in Class Limited (Class) and non-cash impairments) was $8,625,000 which is an improvement on the prior year of $8,189,000. The Directors note this core operating profit has been achieved at a time of significant change in the company as we define, align, build and grow our core business.

The new management team has been focussed on working with our firms to improve the key financial and strategic drivers within our partner firms.

This renewed focus has led to an improvement in performance since February 2017. This can be borne out in the last six months to 30 June 2017 where accounting revenue for the underlying firms increased by 6% compared to the same period in the 2016 financial year.

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Working Capital Discipline

A major focus of all our partner firms has been on the operational efficiency of their working capital.

Work in progress ("WIP") Days measures the number of days WIP is held before being invoiced. It represents the time taken to complete matters and to invoice the client. It is a key signal of the operating efficiency of a firm.

Debtor Days measures the number of days taken to collect outstanding debts. This is one of the most common measures of the effectiveness of the cash collection process and can also be one of many proxy measures of client satisfaction.

Debtors and WIP lock up combined, otherwise known as "Lock-Up" is the amount of days taken to convert effort into cash and is a leading indicator of a firm's efficiency.

Lock Up (Debtors and WIP) is at the lowest it has been since 2011, at 102 days. Our goal is to achieve 85 days by the 30 June 2018. Work in progress at the 30 June 2017 is the lowest it has ever been since CountPlus floated on the ASX, consistent with our new approach to improving the operational efficiencies in our firms.

Total Financial Solutions Australia (TFSA)

As a result of the additional licence conditions imposed on Total Financial Solutions Australia Limited (TFSA) effective 25 September 2015, TFSA is currently conducting an ongoing review of financial product advice provided by one of its authorised representatives for the period commencing 1 January 2013 to 11 December 2015.

The review and remediation program involves approximately 520 small retail clients. The objective of the program is to assess the appropriateness of the advice provided and if the advice is found to be inaccurate, incomplete or inappropriate then TFSA is to restore the financial position of each of these clients.

TFSA has reached an agreement with its professional indemnity insurer to provide a contribution of $3,250,000 towards expected financial detriment that affected clients may have suffered as a result of the advice provided.

TFSA has finalised the methodology to be undertaken in order to assess the quantum of any client detriment and is currently assessing that detriment.

TFSA has previously advised that it provisioned $530,000 at 30 June 2016 to cover the cost of assessing all advice provided. A further $1,187,000 has been provided during the financial year ended 30 June 2017 to cover any additional anticipated costs (net of any contribution from the professional indemnity insurer) of the review and remediation program, including costs associated with assessed clients, where it is considered probable that there will be an outflow of resources.

No provision has been recognised in respect of those clients where it is not considered probable (but still possible) that there will be an outflow of resources.

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In summary;

Provision made 30 June 2016	$ 530,000
Insurance proceeds	$3,250,000
Provision made 30 June 2017	$1,187,000
Less costs incurred in the 2017 financial year	$835,000
Amount available toward remediating the Dobinson matter	$4,132,000

After considering this commercial settlement, and working through several assumptions in what is a very complex matter the Board does not believe, based on estimates made to date, that the company will require any further provision above that made to date for the remediation of Mr Brian Dobinson's clients.

TFSA has a new Board and management team which will ensure TFSA's corporate governance will strengthen the business and client offerings of each of the professional firms it serves in the network. We have made significant changes to the TFSA operating model to reflect our desire to build a high-quality licensee offering a sustainable business. These changes will have a short-term impact on TFSA as we transition to a new business model. The CountPlus Board therefore believe it is prudent to write down the carrying value of TFSA by $2,700,000.

Capital Management

There is a significant reduction in bank debt from the 30 June 2016 date of $25,603,000 to $13,551,000 at the 30 June 2017. This has been achieved through the sale of our shareholding in Class Ltd as well as a result of the exit of some of our member firms resulting from our strategic review.

At the time of this announcement our bank debt stands at $6,680,000.

Our recent strategic review has led to the merger of CountPlus One and Wearne & Co in late June 2017 to create a stronger firm with an improved client value proposition. As part of this process the Board believes it is prudent to make a further final impairment of the Wearne goodwill of $750,000 which when added to the provision of $780,000 at the half year, is a total impairment of $1,530,000.

Firms that offer little or no capacity for strategic value enhancement by CountPlus will not form part of the company's two-year renewal program. We have recently disposed of our interest in McQueen Wealth Management, Financial Momentum and CountPlus National Audits. During the 2017 financial year we also disposed of our interest in CBC Financial Advisers. These four entities contributed a total net loss of $96,000 for year end 2017. The consideration for their combined disposal is $6,151,000 and these funds will be used to reduce debt.

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The sale of select firms has recovered our initial cash outlay/investment as well as contributing funds to reduce our debt. However, on the sale of McQueen Wealth Management and Financial Momentum, being TFSA affiliates, an impairment has taken place. This is due to the current accounting treatment which requires the original investment to include both the initial cash outlay plus expected deferred payments (which are subject to financial thresholds). If these financial thresholds are not met, the deferred payment is recorded as income, not a reduction in investment. We are also required to equity account our share of profit, which is offset by the payment of any dividends.

Our investment in Class has been a strong performer for CUP shareholders. The sale proceeds from Class have been used to reduce debt. As at the 30 June 2017 we held 1,122,000 Class shares that have been sold post balance date.

Having now exited our Class investment position our total cash purchase cost for our Class shareholding was $4,009,000 and we received total cash funds from the sale of our Class shareholding of $15,979,000.

Financial Highlights

	2017	2016	% change
	$'000	$'000	
Total Net Revenue	87,594	87,617	(0.0%)
Consolidated Operating Profit (EBITA)*	6,191	25,777	(76.0%)
Consolidated Net Profit Before Tax	2,163	21,811	(90.1%)
Consolidated Net Profit After Tax	875	13,980	(93.7%)
Profit Attributable to Owners	(106)	13,392	(100.8%)
Basic EPS	(0.10)	12.13	(100.8%)
Diluted EPS	(0.10)	12.13	(100.8%)

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	2017	2016	% change
	$'000	$'000	
Accounting service revenue	60,241	58,022	3.8%
Financial service revenue (net)	19,229	20,340	(5.5%)
Property related revenue (net)	4,921	4,703	4.6%
Other operating revenue	3,203	4,552	(29.6%)
Total Net Revenue	**87,594**	**87,617**	(0.0%)
Non-cash fair value adjustments	-	16,294	(100.0%)
Other income	2,688	2,396	12.2%
Salaries and Employment (Member Firm)	(56,742)	(57,095)	(0.6%)
Salaries and Employment (Head Office)	(2,573)	(2,405)	7.0%
Premises Expense	(5,147)	(5,423)	(5.1%)
Depreciation Expense	(873)	(948)	(7.9%)
Impairment expense	(5,001)	(2,672)	87.2%
Fair value loss on investments	(1,462)	-	100.0%
Other Operating Expenses	(13,185)	(13,098)	0.7%
Total Operating Expenses	**(84,983)**	**(81,641)**	4.1%
EBITA before profit from associates	**5,299**	**24,666**	(78.5%)
Share of profit from associates	892	1,111	(19.7%)
Operating profit (EBITA)	**6,191**	**25,777**	(76.0%)
Interest Expense	(1,157)	(1,293)	(10.5%)
Amortisation Expenses	(2,871)	(2,673)	7.4%
Profit before Tax	2,163	21,811	(90.1%)
Income tax expense	(1,288)	(7,831)	(83.6%)
Consolidated Net Profit after Tax	875	13,980	(93.7%)
Profit attributable to Owners of CUP	(106)	13,392	(100.8%)
Profit attributable to Non-controlling interest	981	588	
	875	**13,980**	
Average no. of shares on issue (BEPS)	110,408,752	110,387,081	0.0%
Basic earnings per share (Cents)	**- 0.10**	**12.13**	(100.8%)
Average no. of shares on issue (DEPS)	110,408,752	110,387,081	0.0%
Diluted earnings per share (Cents)	**- 0.10**	**12.13**	(100.8%)
Current assets	31,588	29,061	8.7%
Current liabilities	21,322	19,293	10.5%
Current ratio	1.48	1.51	
Non-current assets	66,958	90,456	(26.0%)
Non-current liabilities	19,474	37,469	(48.0%)
Net Assets	57,750	62,755	(8.0%)
Net Debt	5,294	19,277	(72.5%

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Dividend

The Company has recently announced a revised dividend policy. Consistent with our renewed and disciplined approach to capital management we have revised our dividend policy to move from quarterly to half-yearly dividend payments, which will coincide with the company's bi-annual financial reporting periods. It is also intended that dividends will be declared in the range of 40% to 70% of maintainable net profit after tax and minority interests, subject to market conditions and company performance. The declaration will be made after Board approval of the reporting results of CountPlus.

There is no dividend payable for 30 June 2017 based on the need for ongoing operational improvements.

We expect that dividends will resume based on the half year 31 December 2017 results, if approved by the Board.

A progress report will be provided at the Annual General Meeting.

Board Update

The founder of CountPlus and former Chairman Barry Lambert has indicated his intention to retire from the Board on 30 September 2017.

Longstanding Independent Non- Executive Director and Chair of the Audit and Risk Committee Graeme Fowler will also be retiring from the Board on this date.

Under the new Non-Executive Chairmanship of Ray Kellerman, the Board recently welcomed new Non-Executive Director Kate Hill to the Board. Ms. Hill was appointed to the Board on 26 June 2017. Among her many business achievements, Ms. Hill was the first female partner admitted to the Deloitte Australia Board of Partners (2000-2002) and the first female member of the Deloitte senior leadership team in Australia.

After the respective retirement of Barry Lambert and Graeme Fowler the CountPlus Board will therefore be comprised of Ray Kellerman (Independent Non-Executive Chair), Alison Ledger (Independent Non-Executive Director), Kate Hill (Independent Non-Executive Director) and Matthew Rowe (Managing Director and CEO).

For further information please contact:

Ray Kellerman
Chairman
T 02 8488 4500
E ray.kellerman@countplus.com.au

Matthew Rowe
Chief Executive Officer
T 02 8488 4500
E matthew.rowe@countplus.com.au
www.countplus.com.au