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CountPlus
Quality Partnerships, Leading Advice

CEO Letter
Matthew Rowe



Thank you.

Dear Shareholder,

Thank you for being a fellow shareholder in CountPlus Limited (CountPlus).

One year into our two-year turnaround plan, we have stripped back inefficient practices, focused on core operations, invested in quality people and aligned our operations to our five key drivers of firms, people, focus, financial and community.

These actions, backed by strong resolve and adherence to the strategic initiatives set out in this letter, position CountPlus well for sustainable growth and earnings.

CountPlus today announces its results for the full financial year 2018. While the CountPlus Board is still not satisfied with the reported results, the underlying result is encouraging. This is demonstrated in the following commentary on the adjusted same firm results. Our financial overview for the 12 months ending 30 June 2018 follows in this letter.

- ▶ Average firm profit margin 15% compared with 12% in 2017
- ▶ Full-year final dividend of 1.0 cent per share
- ▶ Net cash position of \$8.975 million

The underlying profitability and dividend numbers are pleasing, driven by conservative capital management and a universal commitment by management, staff and member firms to create Australia's leading network of professional accounting and advice firms.

Old CountPlus

- ▶ Number of underperforming and non-core firms in the CountPlus stable
- ▶ Balance sheet with \$19.3M of net interest bearing debt
- ▶ 100% ownership of firms, entrepreneurs become employees

New CountPlus

- ▶ Transformation well underway and on track – one year into our two-year turnaround plan
- ▶ Scope for further margin improvement
- ▶ Balance sheet with \$9.0M of net cash
- ▶ Building a simpler, more resilient and profitable CountPlus
- ▶ Making good progress with more focused structure, aligned partnership model, new practice leaders with strong team focus and client first culture
- ▶ 7 firms have Owner, Driver – Partner model in place
- ▶ Enhanced, competitive and ethical value proposition
- ▶ New growth opportunities are emerging – well placed to deliver profitable growth in a dislocating advice sector. Expected changes suit CountPlus

Our well-articulated turnaround strategy has begun to deliver. The Company has carefully managed an improved balance sheet. Profitability is derived from the fundamentals of stripped back inefficiencies, debt reduction, and systematic controls for the prudent management of capital.

CountPlus is pleased to have reported profit results in line with the turnaround strategy of the Company:

Financial Results summary	FY18	FY17	FY16	Movement - FY17 – FY18	
	\$'000	\$'000	\$'000	\$'000	%
Adjusted same firm revenue	74,386	73,441	75,428	945	1
Adjusted EBITA	7,843	8,941	7,604	(1,098)	(12)
Adjusted net profit attributable to shareholders	3,764	4,004	2,887	(240)	(6)
Adjusted NPATA	5,834	6,354	5,283	(520)	(8)
Net cash / (debt)	8,975	(5,294)	(19,277)	14,269	270

Notes:

Same firm is defined as the current stable of Partner firms noting that seven firms have been exited and sixteen firms remain in the group. Adjusted is defined as reported results adjusted for one-off, non-recurring items. Refer to the Appendices of the Results Presentation for a reconciliation of these amounts.

Significant change

In a period of focused change, three are most significant:

1

Refreshed leadership

Over the past 16 months, 80% of our firms have refreshed their leadership with new Managing Principals now in place. In what is fundamentally a ‘people business’, the magnitude of implementing such relatively high turnover carried the significant risk of adverse impact on revenue generation and profitability.

However, as testament to the quality of our new leaders, the resilience of our people and the strength of our underlying client relationships – firms have **increased revenue and improved average revenue per FTE during this time.**

In the 2019 financial year, we will continue to turn around the fortunes of CountPlus. Our focus will be on expanding our network and looking after our clients, people, shareholders, existing member firms, and the communities we serve.

2

Reduced liabilities

Equally significant is the fact that Company liabilities have reduced dramatically. In the past 12 months alone, CountPlus has repaid \$11.5M in interest bearing debt. The Company now has \$9.0M in net cash – an excellent achievement in a short period of time. The net interest bearing debt of the Company at 30 June 2018 was just \$2.0M, down from \$25.5M as at 31 December 2016.

3

Resumed dividends

Finally, the Directors are pleased to announce that CountPlus will resume paying dividends to shareholders. CountPlus has declared a 1.0 cent dividend for the reporting period 30 June 2018. Our focus on our core business, strict financial controls and strengthened balance sheet have made this possible.

This letter reaffirms our commitment to further improving our balance sheet and achieving sustainable growth and profits for the Company.



FINANCIAL

we will make a decent profit, decently

Dividends

The Directors are now pleased to announce the resumption of dividends given the Company's stronger financial position, reduced debt, and stricter capital management.

The Board will pay a fully franked dividend of 1 cent per share.

Sustainable Profit

From the beginning of our two-year turnaround strategy the primary focus was to raise the sustainable profit of our core operations – Accounting, Business Advisory and Financial Advice firms.

The success to date can be seen by the lifting of the average EBITA / Revenue margin of our firms from 12% in 2017, to 15% in 2018.

Moreover, the specific elements behind the profit margin improvement in our firms, include the following:

- ▶ 80% of firms have a new and invigorated leadership team
- ▶ 95% of firms have a new Firm Chair
- ▶ EBITA results include restructuring costs of \$684,000 at a firm level
- ▶ Revenue on same firm analysis at \$74.3M is an increase of \$0.95M on 2017, even with the significant people changes that have taken place
- ▶ All firms have new business plans, a new governance structure and accountability frameworks
- ▶ All firms have a new budget process for 2019 focussing on capacity, margin expansion and growth
- ▶ New working capital policies in place relating to WIP, Debtors and Lock Up with consistent provisioning in place

Improvement in lock-up days

The CountPlus management team focuses on a range of key metrics when assessing the performance of the Company. A key metric is 'Lock Up Days', which has improved considerably through stricter working capital management.

All member firms are now focusing on the 'cash conversion cycle'. This describes the process of starting a job, working to completion and then receipt of cash. We aimed for an average lock-up of 85 days, from a starting point of an average of 107 days in December 2016 (and just two firms reporting 85 days at that time).

We achieved a firm average lock-up of 94 days at 30 June 2018, with over 50% of our firms at 85 days or below, and our best performing firm at 57 days. Our worst performing firm improved from 220 days in 2017 to 124 days in 2018. We still have some work to do with five of our firms holding average lock-up above 100 days.

Sustainable growth

CountPlus is pleased to be increasing its focus on future growth. Our Merger & Acquisition (M&A) plans are a key part of this shift. The Company is currently conducting due diligence on a number of high-quality firms to further expand our national network and earnings potential. We have invested in our M&A capabilities on behalf of the Company.

CountPlus now boasts a strong and revitalised community of 16 firms. Each is centred on the Company's core business of providing Accounting, Business Advisory and Financial Planning services.

We have made great strides in implementing our unique **Owner, Driver – Partner model (OD-P)**, whereby our member firms share an equity stake alongside CountPlus as strategic partner.

We are building on our 'Success Partner' initiative – targeting only high-quality and successful accounting and advice firms to join our group. The Company has reviewed and made decisions to sell any underperforming firm that does not meet key metrics, values or indeed fit the 'CountPlus family photograph'.

This OD-P model, unique in our industry in Australia, is key to our success. Participating CountPlus principals own and drive their firms together with a strong ASX-listed partner. The partnership services and support our firms receive from CountPlus include a range of elements – from shared processes and controls, to improved funding and simply benefiting from economies of scale.

Member firm Principals benefit from a clear, shareholder and client-aligned incentive to drive the success of their businesses.

Our core business

The growth dynamic of our core business derives from the significant opportunity set currently existing within the Australian financial advice and accounting services market.

Against a harsh backdrop of misconduct revealed by the Hayne Royal Commission into the Banking, Superannuation and Financial Services Industry, commentators expect the consumer 'trust deficit' to push people towards independent financial advice, away from the large banks and vertically integrated institutional owners.

This expected trend is an important opportunity.

We would expect – and we aim to promote – the benefits of more Australians visiting a CountPlus member firm as a source of trusted financial and accounting advice. Against the expected fallout of the Hayne Royal Commission, high-quality financial advisers will seek to engage with a trustworthy, client-centric group like CountPlus to further their professional careers.

The ageing demographics of Australians will also drive demand and growth of our business. As the wealth of our population increases so too does the pool of non-discretionary superannuation savings. The self-managed superannuation fund sector growth will also deliver demand, as will the rising numbers of small businesses that have a greater need for quality accounting and financial advisory services.

The OD-P Strategy

Our strategy is to provide investment and intellectual capital to leading accounting and advice firms with shared values, a sense of community, and an overriding commitment to making a positive difference to every client.

Our OD-P model is the foundation upon which our strategy and market opportunities may be leveraged.

Within our core business in 2018 we are predominantly 'owners' of member firms. But our **core business** has fundamentally changed so that CountPlus has plans to become a **partner in** and **not an owner of** every one of our Accounting, Business Advisory and Financial Planning member firms.

The OD-P model brings with it successful partnerships, controls and processes as well as a sense of perpetuity, of custodianship, with a partnership approach that values long-term client relationships and sustainable decision-making.

Member firms benefit from being part of a national group with a focus on sustainable earnings, strong balance sheet and growth. They share in the group's expertise and best practices. In addition, our evolving model allows firm owners to retain day-to-day management of their operations, with CountPlus providing strategic support, access to modern IT systems, best practice HR programs, improved compliance and stronger risk management.

Our focus is on partnerships to maximise growth of firms that have financial planning and accounting operations, and on the sustainability of operations as the nation's pool of investable assets grows. Selecting future partner firms will only be about reinforcing this core.



FIRMS
we provide financial
and intellectual
investment capital

Kidmans Partners

A case study in revitalisation and growth

Three core attributes – strategy, governance and support – sit as proud cornerstone markers for the revitalisation and future growth of CountPlus member firm, Kidmans Partners.

Under new Managing Director (MD) Ross Hedrick (hired as a 14-year veteran from within a ‘tuck-in’ firm), and guided by senior Independent Chair Graham McGeagh (pictured, left) Kidmans Partners embarked on a ground-up refocus 12 months ago.

It began with a frank and unapologetic assessment: **things must change.**

‘Today, it is a very different story,’ says McGeagh. ‘The turnaround and purposeful direction of the firm has been swift, deliberate and already yielding results. The energy level and enthusiasm of the team is palpable, and the communication of the MD around five core principles (mirroring the CountPlus drivers of clients, people, focus, financial and community) has made a measurable difference to our staff and the quality of client experience.’

A small-scale, but deeply aligned version of CountPlus’ two-year revitalisation programme is now well in place.

However, one additional element was paramount – to negotiate refinancing of debt, improve the liquidity of shares, and refocus the management team as equity owners with the drive and purpose of being a partner to CountPlus, not 100% owned by it.

‘With the backing of CountPlus, we were able to reduce debt by 50%, but also recapitalise funding on long-term, strong commercial terms, and also enable the buy-back of shares,’ says Hedrick.

‘The Owner, Driver – Partner model is in action with a new senior team member taking equity in the last financial year alongside three other senior firm members. The combination, I believe, has helped contribute to the underlying turnaround in our financial performance,’ he says.

McGeagh concurs: ‘We have seen an immediate uplift. The alignment of values together with improved governance and drawing upon the support of CountPlus has delivered a platform for growth across the spectrum of the firm.’

‘Kidmans Partners clients, staff and key stakeholders will all benefit from the continued growth and maturity of our firm.’



PEOPLE

we invest in people and build leaders

Two principles have guided our thinking on the quality of leaders within our network:

- 1 People are our most important asset.
- 2 In professional services, a firm will never consistently outperform the leadership that guides it.

That is why significant changes have taken place in the leadership of our firms, with 80% of our firms being led by a new leadership team. We have also appointed highly experienced and credentialed Firm Chairs to oversee with strategic planning, accountability and governance. We have promoted heavily from within our ranks, and in addition to our new leadership team we have also appointed 18 new Principals in the last 12 months.

With our people transformation underway, an inaugural culture and engagement survey was undertaken in July 2018. It revealed:

- ▶ 83% of CountPlus people would recommend their firm's services to a family member or friend
- ▶ 84% would recommend their firm as a potential employer
- ▶ 90% are proud to tell people they work for their firm
- ▶ 85% believe that their firm is now progressing in the right direction, compared with 12 months ago.

The overall key messages from our culture and engagement survey – the first in the history of CountPlus – is that we are being asked to continue to deliver change at the current pace. Also, we must continue to focus on building the leadership capabilities across our firms. It is also apparent that our leaders drive culture, and the changes in leadership across our firms is seen as overwhelmingly positive.

In 2019, CountPlus will focus increasingly on our engagement with our people to revitalise training programs and implement robust HR processes and practices. All of which will help member firms to ensure that their teams secure the opportunity to grow and succeed.

CountPlus will assist member firms to build strong leaders and support the rising stars within their ranks with new programs, such as:

- ▶ Managers networking with peers to share and learn what it takes to grow into a future leader
- ▶ The Barry Lambert Scholarship, where high potential Managing Principals are offered a chance to attend the 'Leading Professional Services Firms' Executive Education program at Harvard Business School in Boston, USA
- ▶ Access to talent management programs based on 'best of breed' in the market and within current firms. This includes performance management frameworks, Principal evaluation processes, workforce planning, remuneration and benchmarking.
- ▶ Importantly, CountPlus also assists member firms with difficult or problematic staffing / shareholder issues, easing the way for improved morale and increased talent retention.

Management and Board Changes

Our strategic plan for achieving sustainable growth is being implemented by a refreshed CountPlus Board and management team.

Mr Laurent Toussaint was appointed Chief Financial Officer of CountPlus in January 2018.

Mr Toussaint brings to CountPlus a strong track record as a CFO within ASX-listed companies as well as the added understanding of what it means to be an Owner-Principal in a firm.

CountPlus recently appointed former Bentleys Australia Chief Executive Officer, Mr Mark Chapman, as Chief Operating Officer of CountPlus, effective June 2018. Mr Chapman brings an outstanding track record as an accounting professional executive and former military leader and will help to drive our expansion strategy.

To strengthen our Board, Mr Andrew McGill was appointed as a Non-Executive Director in December 2017. Mr McGill brings a strong professional background in finance and investment. Until 2015, he served as Managing Director and CEO of Pacific Current Group Limited, an international multi-boutique funds management Company which is ASX-listed.

Importantly, Mr McGill was also appointed Chair of the Acquisitions Committee. CountPlus will benefit from Mr McGill's M&A expertise and private equity experience in building the CountPlus community of firms.

The founder of CountPlus and former Chair Mr Barry Lambert retired from the Board on 30 September 2017. Longstanding Independent Non-Executive Director and Chair of the Audit and Risk Committee, Mr Graeme Fowler, also retired from the Board on this date.



FOCUS

we believe
excellence =
process x culture

The expression 'fits the family photograph' defines our approach to building our aligned member firm group. Decisions to invest in, grow or exit firms will be viewed through this filter.

We remain focused on finding the right firms and seek only quality partnerships with successful firms that fit within our Company's model. This 'photograph' acts as a lens through which we assess sustainability and values, to make informed decisions about investing, growing or exiting from them.

With the help of CountPlus management, member firms have begun cementing their individual and team success based on a renewed focus on the four cornerstones of professional practice: leadership, people, planning and systems.

In terms of expanding, at a high level, the right fit means member firms must show evidence of 16 attributes:

- ▶ A client value proposition
- ▶ Leadership with strong bench strength
- ▶ Strong governance structure with an Independent Chair
- ▶ Strong financial controls and management reporting in place
- ▶ An inquiring mind regarding innovation and willingness to embrace new technology and processes
- ▶ Accountability and incentive framework
- ▶ Strategic and business / operating plans in place and milestones measured against balanced scorecard
- ▶ A strong focus on culture, people and values
- ▶ Debt management and the financial health of the underlying business and principals
- ▶ Growth strategies in place with a growth mindset
- ▶ Succession planning
- ▶ Risk management framework in place
- ▶ A quality culture and framework in place with quality assurance controls and willingness to participate in ongoing peer review process
- ▶ Willingness to share best practice and be part of the CountPlus community
- ▶ A strong engagement with their respective professional community, and
- ▶ A world view that incorporates philanthropy and / or pro-bono activities.

Total Financial Solutions (TFS) resolution

CountPlus has resolved the Total Financial Solutions (TFS) remediation program, following co-operative and productive engagement with the Australian Securities and Investments Commission (ASIC).

A remediation program initiated by TFS oversaw a successful client review and remediation program for the affected clients. CountPlus recognises the work of a completely new TFS Executive Team and Board, as well as an expert panel assembled to guide the overhaul of TFS's governance protocols and compliance regime.

This work led to the April 2018 lifting of conditional Australian Financial Services Licence (AFSL) requirements by the corporate regulator, imposed on TFS in 2015.

CountPlus is confident that the Dobinson matter is now resolved. Significant changes have been made to TFS, including a renewal of the entire leadership team, new governance frameworks, remuneration practices, quality assurance policies and processes and – most importantly – cultural change. Culture is set from the leadership. CountPlus will continue to embed, invest in and defend these cultural changes.

Moreover, our far-reaching efforts will demonstrably benefit clients and the advisers who serve them.

A total provision of \$1.7M was made in relation to the Dobinson remediation matter during the financial years ending 30 June 2016 (\$530K) and 2017 (\$1.2M). Given extensive further reviews and the status of outstanding remediation claims assessed, TFS has written back the provision made during the financial year ending 30 June 2018 after costs incurred. The total write back was \$724K and a small provision has been retained.

The new operating model for TFS will deliver a lower profit contribution to CountPlus in the near term. As a result, it was necessary at the half-year to impair the carrying value of TFS by \$3,500,000.

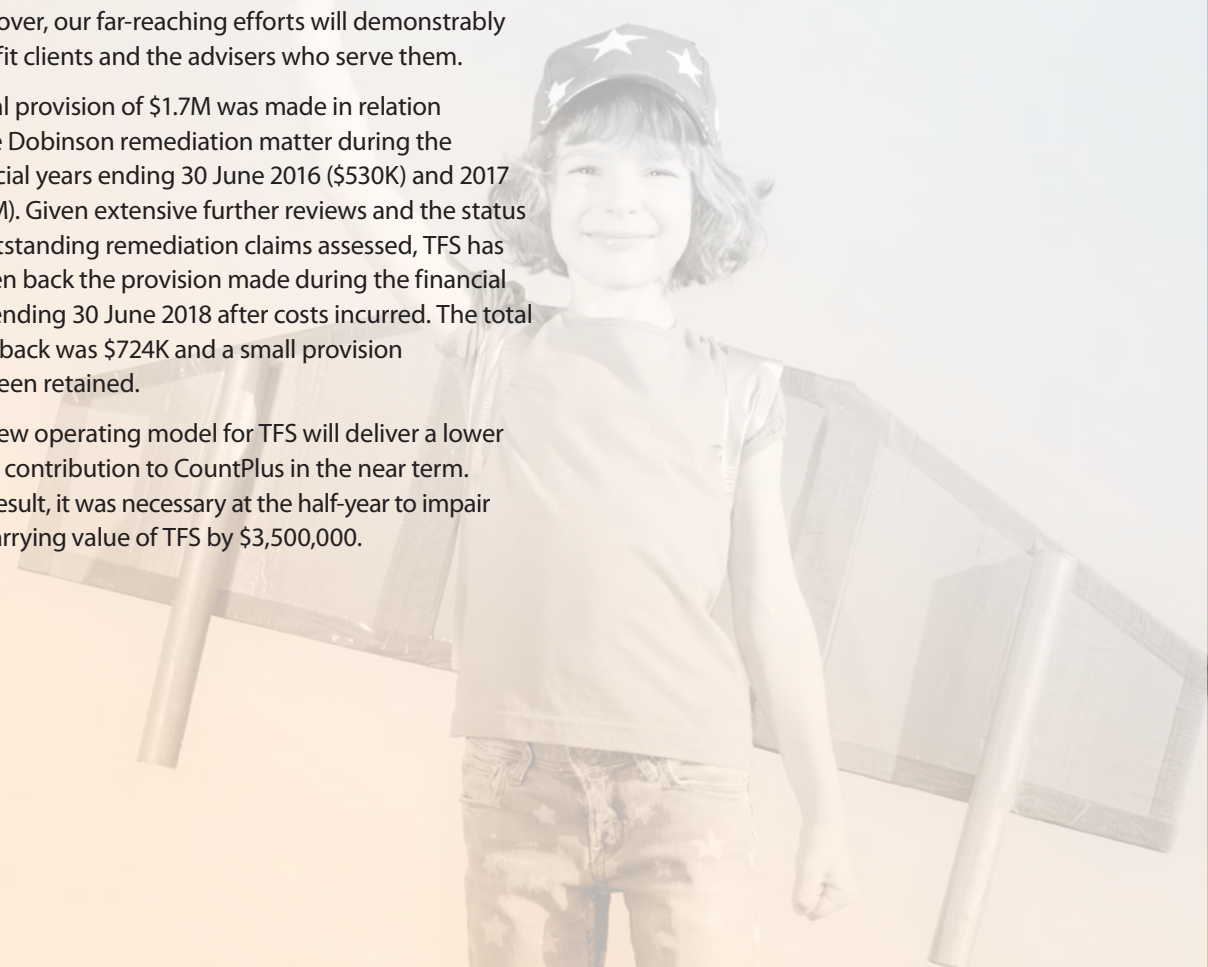
Community

A community team has voluntarily come together from within our firms to build our philanthropic and pro-bono programs. In conjunction with the Count Charitable Foundation, all our firms have become platinum partners with the Foundation and we have set ourselves a target of \$2.020M in pro-bono and philanthropic giving by the end of 2020.

A case study in our community strategic driver is our firm Mogg Osborne. Mogg Osborne was the recipient of the national Count Charitable Foundation Award in 2018.

The firm's team members collectively donated 5,935 hours to assist more than 40 local community organisations, and donated \$11,400 in pro-bono professional work undertaken.

Not coincidentally, Mogg Osborne achieved 97.5% client retention and achieved 100% staff retention in 2018. Well done!





OUTLOOK

sustainable growth

Our combined actions over the past year place CountPlus on a strong footing to become Australia's leading network of professional accounting and advice firms. Our future expansion will be driven by partnering with quality member firms who fit within our 'family photograph' and can add to our accounting and financial advice skills.

We will continue to align our member firms through shared values, common aims and a strong sense of community. Over the next three years, the Company will continue to **align, build and grow** its core business.

We are one year into a two-year turnaround strategy. Significant progress has been made towards achieving real gains for CountPlus and its shareholders. We expect our turnaround to be complete by May 2019. Our earnings before interest, tax and amortisation (EBITA) margin target in the short term is 20% and in the medium term our average firm margin target is 25%. We expect to make more progress towards this target in the 2019 financial year.

Our firms continue to generate a reliable, annuity-style cash flow and we anticipate this continuing as we turn our attention to funding growth strategies, strengthening our financial position and rewarding our shareholders.

Our collaboration with leading accounting and advice firms is already making strong headway for the long-term success of CountPlus clients, people, our member firms and shareholders.

Thank you for your loyalty as a CountPlus shareholder.



Matthew Rowe
Chief Executive Officer



**Thank you for
your loyalty
as a CountPlus
shareholder.**



