

NOTICE OF EXTRAORDINARY GENERAL MEETING, EXPLANATORY NOTES AND INDEPENDENT EXPERT'S REPORT

Tuesday, 6 August 2019

10am (Sydney Time)

**Grant Thornton
Redwood Meeting Room
Level 17, 383 Kent Street
Sydney NSW 2000**



The Independent Expert has concluded that the Acquisition as set out in the Explanatory Notes and in the enclosed Independent Expert's Report is fair and reasonable to the non-associated Shareholders.

The Board unanimously recommends that Shareholders vote in favour of the Resolution.

This Notice of Meeting is dated 1 July 2019.

This document is important and requires your immediate attention. You should carefully read this document in its entirety and consult your stockbroker, solicitor, accountant, licensed financial adviser or other professional adviser if you are in any doubt as to what to do.



TABLE OF CONTENTS

1

SECTION		PAGE
1	Chairperson's Letter	4
2	Notice of Meeting	5
3	Explanatory Notes	8
4	Glossary	28
5	Independent Expert's Report	33

NOTE: Capitalised terms used in this document are defined in the Glossary (Section 4).

Key Dates

Due date for lodgement of proxy forms	10am (Sydney time) on 4 August 2019
--	-------------------------------------

Record Date	7pm (Sydney time) on 4 August 2019
--------------------	------------------------------------

General Meeting	10am (Sydney time) on 6 August 2019
------------------------	-------------------------------------

NOTE: *The above timetable is indicative only. The Company may vary any of the above dates without notice, subject to the Corporations Act, the Listing Rules and other applicable law.*

Important Information

This Notice of Meeting is dated 1 July 2019.

A copy of this Notice of Meeting has been lodged with ASX. ASX does not take any responsibility for the contents of this Notice of Meeting.

This Notice of Meeting does not take into account the individual investment objectives, financial situation or particular needs of any person. Shareholders should seek professional advice from a licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser before deciding whether or not to approve the resolutions set out in this Notice of Meeting.

This Notice of Meeting is governed by the law in force in New South Wales.

Corporate Directory

Current Directors

Ray Kellerman	<i>Independent Non-Executive Chairperson</i>
Matthew Rowe	<i>Managing Director and CEO</i>
Alison Ledger	<i>Independent Non-Executive Director</i>
Kate Hill	<i>Independent Non-Executive Director</i>
Andrew McGill	<i>Independent Non-Executive Director</i>

Company Secretaries

Laurent Toussaint
Narelle Wooden

Registered Office

Level 17, 1 Margaret Street, Sydney NSW 2000

Share Registry

Computershare Investors Services Pty Limited
Level 4, 60 Carrington Street, Sydney NSW 2000

Independent Expert

Loneragan Edwards & Associates Limited
Level 7, 64 Castlereagh Street, Sydney NSW 2000

Auditors

Grant Thornton Australia
Level 17, 383 Kent Street, Sydney NSW 2000

Solicitors

Thomson Geer
Level 25, 1 O'Connell Street, Sydney NSW 2000

Dear Shareholder,

On behalf of the Board of CountPlus Limited (**Company** or **CUP**) I am pleased to invite you to a General Meeting of Shareholders to be held on 6 August 2019.

As announced on 13 June 2019, this General Meeting of Shareholders is being convened to consider and vote on the proposed acquisition by the Company, (in conjunction with the Count Member Firm Special Purpose Vehicle referred to in section 3.4(a) of this Notice of Meeting), of Count Financial Limited ACN 001 974 625 (**Count**) from Capital 121 Pty Limited ACN 003 148 187 (**CBA Seller**), a subsidiary of Commonwealth Bank of Australia ACN 123 123 124 (**CBA**) (**Acquisition**).

The Company will be acquiring 85% of the issued share capital of Count and the Count Member Firm Special Purpose Vehicle the remaining 15% (**Sale Shares**).

As I outlined in my last Chairperson's Report, the Executive team and Board have been closely monitoring CBA's plans for its wealth management business units and, in particular Count, given its strategic importance to the Company. Given the progress we have made to strengthen the Company's balance sheet and our desire to shift the focus to grow business earnings, the Acquisition is a unique opportunity to achieve scalable growth whilst also maintaining complete consistency with our stated vision to become Australia's leading network of professional accounting and advice firms, aligned through shared values, mutual success and our sense of community.

Whilst there is considerable disruption in the wealth sector at present, with this disruption comes the opportunity to position the Company as a leader in the professional accounting and advice sector, based on putting the customer at the centre of everything we do, supported by a solid corporate governance and ethical framework. This Acquisition is an opportunity to achieve this market position, which aligns well with our accounting network's focus on small to medium enterprises and the related advice requirements of their stakeholders.

Following consultation with the ASX, the ASX determined that Listing Rule 10.1 applies to the Acquisition. In summary, noting CBA and the CBA Seller, (through their ownership of and association with Count), are substantial Shareholders of the Company, controlling approximately 35.85% of the shares in the Company at this time, and considering other relevant information provided to it, the ASX determined that Count is a substantial asset relative to the assets of the Company and approval by the Company's Shareholders (other than Count and its associates) is required for the Acquisition to proceed.

As required under Listing Rule 10.10.2, the Company has engaged an Independent Expert to determine whether the Acquisition is fair and reasonable to the non-associated Shareholders, (being the Shareholders other than Count and its associates).

The Independent Expert has determined that the Acquisition is fair and reasonable to the non-associated Shareholders and a copy of the Independent Expert's Report is attached to this Notice of Meeting.

Shareholders are encouraged to carefully read the Independent Expert's Report to understand its scope, the methodology of the assessment, the sources of information and the assumptions made.

The Board unanimously considers the Acquisition to be in the Company's best interests and for the benefit of its non-associated Shareholders, and unanimously recommends that Shareholders vote in favour of the Resolution.

The Chairperson intends to vote all undirected proxies in favour of the Resolution.

I look forward to your attendance at the General Meeting. If you are unable to attend the meeting in person, please complete, sign and return the enclosed proxy form by 10am (Sydney time) on 4 August 2019.

Yours sincerely



Ray Kellerman
Non-Executive Chairperson

NOTICE OF MEETING

5

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Shareholders of the Company will be held at Grant Thornton, Redwood Meeting Room, Level 17, 383 Kent Street, Sydney NSW 2000 on 6 August 2019 at 10am (Sydney time).

Business**Resolution – Approval of Acquisition**

To consider and, if thought fit, to pass the following Resolution as an ordinary resolution:

“That for the purposes of Listing Rule 10.1, and for all other purposes, Shareholder approval is given to the Company and the Count Member Firm Special Purpose Vehicle to complete the Acquisition on the terms set out in the Explanatory Notes accompanying the notice convening this General Meeting.”

Further information in relation to the Resolution is set out in the Explanatory Notes which accompany and form part of this Notice of Meeting.

By order of the Board



Narelle Wooden
Company Secretary
Date: 1 July 2019

2.1 Voting Exclusions

Resolution

In accordance with the notice requirements of Listing Rule 10.1, the Company will disregard any votes cast in favour of the Resolution by:

- (a) Count, CBA and the CBA Seller (**Transaction Parties**); and
- (b) any Associates of a Transaction Party;

However, the Company need not disregard a vote if:

- (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

2.2 Documents

A proxy form accompanies these documents.

2.3 Persons entitled to vote

Under regulation 7.11.37 of the Corporations Regulations, the Directors have determined that the shareholding of each member for the purposes of ascertaining their voting entitlements at the General Meeting will be as it appears in the share register at 7pm (Sydney time) on 4 August 2019.

2.4 How to Vote

If you are eligible, you may vote by attending the General Meeting in person or by proxy or attorney. A member who is a body corporate may appoint a representative to attend and vote on its behalf.

2.5 Voting in Person

To vote in person, attend the General Meeting at the time and place set out in this Notice of Meeting.

2.6 Voting by Proxy

To vote by proxy, please complete, sign and return the enclosed proxy form in accordance with the following instructions. If you require an additional proxy form, the Company will supply it on request.

2.7

Proxies

A Shareholder who is entitled to vote at the General Meeting may appoint:

- ▶ one (1) proxy if the member is only entitled to one (1) vote; or
- ▶ one (1) or two (2) proxies if the member is entitled to more than one (1) vote.

Where the Shareholder appoints two (2) proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise one-half of the votes, in which case any fraction of votes will be disregarded.

A proxy need not be a Shareholder of the Company.

The proxy form must be signed by the Shareholder or the Shareholder's attorney. Proxies given by a corporation must be executed in accordance with the Corporations Act and the constitution of that corporation.

The proxy form and the power of attorney or other authority (if any) under which it is signed, or a certified copy, must be received by the Company at least 48 hours before the time for holding of the General Meeting or any adjourned meeting (or such lesser period as the Directors may permit). Shareholders should refer to the proxy form accompanying this Notice of Meeting for details on how to lodge their vote.

2.8

Voting by Attorney

A Shareholder may appoint an attorney to act on the Shareholder's behalf at the General Meeting. The power of attorney or such other evidence of the attorney's appointment and authority to the satisfaction of the Directors must be received by the Company at least 48 hours before the time for holding of the General Meeting or any adjourned meeting.

2.9

Enquiries

For further information, please contact the Company Secretary, Narelle Wooden, on 1300 825 295.

8

EXPLANATORY NOTES

These Explanatory Notes have been prepared for the information of Shareholders in connection with the business to be conducted at the Extraordinary General Meeting to be held at Grant Thornton, Redwood Meeting Room, Level 17, 383 Kent Street, Sydney NSW 2000 on 6 August 2019 at 10am (Sydney time).

3.1 Background to the Acquisition

As announced on 13 June 2019, the Company and the Count Member Firm Special Purpose Vehicle have entered into a Share Sale Deed (**Share Sale Deed**) for the acquisition of Count from the CBA Seller, a subsidiary of CBA (**Acquisition**).

CBA announced in June 2018 its intention to demerge its wealth management and mortgage broking businesses – which included Count – into a new entity. Those demerger plans were subsequently suspended, as announced by CBA in March 2019. As the Company has mentioned in previous shareholder updates, including in its FY18 Annual Report, the Company closely monitored developments on the proposed demerger and, for the reasons set out below and in section 3.12 offered to acquire Count from CBA. CBA has agreed to sell Count to the Company and the Count Member Firm Special Purpose Vehicle on the terms described below.

The Board considers the Acquisition to be in the best interests of the Company and its Shareholders. Section 3.12 describes further the Board's view of the advantages (and disadvantages) of the Acquisition.

3.2 Background on Count

Count was listed on the ASX in December 2000 and was acquired by CBA in late 2011 for approximately \$373 million.

CBA announced in June 2018 its intention to demerge its wealth management and mortgage broking businesses to enable CBA “to enhance its focus on its core banking businesses in Australia and New Zealand and create a simpler, better bank... also respond(s) to continuing shifts in the external environment and community expectations and addresses the concerns regarding banks owning wealth management businesses”.

Count incurred an operating loss of approximately \$6.1 million (before tax) in FY18 under CBA ownership, and would be expected to incur a further operating loss in FY19 under CBA ownership.

Further information on Count is set out in section V of the Independent Expert's Report from page 27.

Count remains a well-recognised brand and is one of Australia's largest networks of accountant-based professional advisers with 160 member accounting firms and 359 financial advisers.

3.3 Relationship between Count and the Company

The Company was incorporated as a subsidiary of Count in 2006. When the Company listed on the ASX in 2010, Count remained a substantial shareholder of the Company. As at the date of this Notice of Meeting, Count continues to be a substantial shareholder of the Company, holding an approximate 35.85% shareholding in the Company.

As detailed in the Company's FY18 Annual Report, thirteen of the fourteen subsidiaries within the Company's corporate group (**Group**) were franchisees of Count during the period and operate under its Australian Financial Services Licence.

The Company and Count are also party to a Relationship Deed, which has been in place since 4 November 2010 (as amended on 22 December 2015). Further details of the Relationship Deed are disclosed in the Company's FY18 Annual Report: <https://www.countplus.com.au/assets/reports/CUP-Annual-Report-FY18-Final2.pdf>.

None of Count, the CBA Seller nor CBA are considered by the Company to be related parties of the Company.

3.4 Share Sale Deed

The key terms of the Share Sale Deed are summarised below.

(a) Buyers

Under the Share Sale Deed, the Company will acquire 85% of the Sale Shares and the Count Member Firm Special Purpose Vehicle will acquire the remaining 15% of Sale Shares.

The Count Member Firm Special Purpose Vehicle is a company that has been established for the purpose of holding the Sale Shares it will acquire and accumulating and distributing dividends it receives pursuant to that shareholding to beneficiaries of the trust described hereafter. The Count Member Firm Special Purpose Vehicle will be wholly-owned by a corporate trustee of a discretionary trust and the beneficiaries of the trust will be those Count adviser member firms (the Count corporate authorised representatives) who meet certain client service, compliance and other performance benchmarks. The intention is to promote the Count corporate authorised representatives' commitment to excellence in service, compliance with the "customer best interest duty" and alignment with Count's business interests as an Australian Financial Services Licence holder.

Subject to certain minimum overall financial criteria for Count being met, if Count adviser member firms meet the various criteria set for them, they may be paid a bonus payment out of the trust funds pursuant to the dividends paid up to the Count Member Firm Special Purpose Vehicle and available to the trustee for distribution to the Count adviser member firms.

This structure is consistent with the Company's existing "Owner, Driver – Partner" model which provides senior members in the Company's network of firms with a direct interest in their firms, promoting optimal performance in the delivery of their services.

(b) Consideration – Adequacy of CBA initial working capital contribution

The consideration payable for the Acquisition is:

- (i) a payment of \$2.5 million, which will be paid by the Company and the Count Member Firm Special Purpose Vehicle (in proportion to their ownership) to the CBA Seller at completion of the Acquisition (**Completion**); and
- (ii) plus (if positive) or minus (if negative) the difference between the actual working capital of Count at Completion and an agreed working capital target of \$11.95 million. This will be paid by the Company to the CBA Seller (if positive) or by the CBA Seller to the Company (if negative) after the parties finalise their determination of the adjustment payment,

and subject to any other adjustments set out in the Share Sale Deed.

The Company will fund the consideration from existing cash reserves and will provide a non-recourse loan to the Count Member Firm Special Purpose Vehicle at a commercial rate of interest to allow it to purchase its 15% stake. Further details are provided in 3.5 with respect to the Company's rights in relation to this 15% shareholding.

The CBA Seller will deliver Count on Completion with a working capital contribution in the amount of \$11.95 million to cover restructure costs associated with the restructure of the Count business under the ownership of the Company. This level of contribution has been procured by the Company from CBA to ensure that on Acquisition, Count will be well capitalised, ready to pursue its future properly resourced under the Company's ownership.

In that regard, and as part of the comprehensive financial model the Company constructed with respect to the Acquisition in its entirety, (as referred to in other relevant paragraphs in these Explanatory Notes), the Company assessed the:

- (i) historical working capital profile of Count under CBA's ownership over the past 2 years;
- (ii) working capital requirements for Count going forward under the Company's ownership, with detailed consideration of matters expected to impact the business's future working capital needs in the changing environment for the Count business going forward; and
- (iii) without limiting ((ii)), the restructure costs associated with moving from a "grandfathered commissions" remuneration basis to a "user pays fee for service" structure.

Importantly, the Company's assessment that CBA's \$11.95 million contribution on Acquisition will position the Company adequately for its working capital and restructuring requirements going forward has been made in the context of, and been substantially informed by, the Company's successful and rigorous restructure of its Total Financial Solutions (**TFS**) advisory business over a 2 year period, from which it has emerged in compliant and "fit for purpose" condition.

Similarly, the Company's assessment of CBA's committed contribution to the costs of promoting the improvements to Count's:

- (i) "best interest duty to clients" program as referred to in paragraph 3.6(c); and
 - (ii) "supervision and monitoring framework" program, also as referred to in paragraph 3.6(c),
- as sufficient and as positioning the Company well for those programs, has also been made in the context of, and been substantially informed by, the Company's successful and rigorous restructure of its TFS advisory business as referred to above. The same Company team that implemented the TFS restructure will be implementing the Count restructure.

The CBA Seller will be required to discharge all external debt (if any) on Completion and any arms-length intercompany balances with the CBA group will be settled in the ordinary course.

(c) **Conditions precedent**

Completion of the Acquisition is subject to the satisfaction or waiver of the following conditions precedent:

- (i) Shareholders passing the Resolution by the requisite majority;
- (ii) the Independent Expert's Report concluding that the Acquisition is fair and reasonable to the non-associated Shareholders, which the Independent Expert has concluded; and
- (iii) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or governmental agency or other material legal restraint or prohibition preventing or delaying Completion being in effect at 9.00am on the Completion Date (or, if such an order is in effect and was made less than 10 business days before the targeted Completion Date, such order is lifted within 15 business days of that targeted Completion Date).

The conditions must be satisfied or waived by the later of 31 December 2019 or, if such an order referred to in section 3.4(c)(iii) is in effect on the targeted Completion Date, the date being 16 business days after the targeted Completion Date (**Cut Off Date**).

As at the date of this Notice of Meeting, the Directors are not aware of any reason why any of the conditions precedent under the Share Sale Deed will not be satisfied. The Directors will keep Shareholders and ASX advised in that regard, including as to the outcome of the vote by Shareholders on the Resolution proposed.

(d) Transition plan

The Count business currently uses and receives the benefit of certain shared services, systems, resources, contracts and assets owned by CBA. These include access to CBA's premises, IT services and systems licensed by CBA.

The parties have agreed that a data segregation process will be commenced prior to Completion to partition, segregate and cleanse data that relates exclusively to Count which is co-mingled with data relating to parts of the larger CBA group. To the extent reasonably practicable, this process will be achieved prior to Completion, with assurances to the Company that post-Completion, to the extent the process is not entirely completed, arrangements will be made for the Company to access the information for the purposes of the Count business's ongoing operations.

The Transitional Services Agreement referred to in section 3.7 will cover certain shared services which have not been separated by Completion, as detailed further in section 3.7.

(e) Completion timing

Completion of the Acquisition is currently expected to occur on or around 1 October 2019, and completion cannot occur before 1 October 2019 (unless the parties otherwise agree).

(f) Termination

The Share Sale Deed may be terminated by the Company or the CBA Seller if:

- (i) the other party suffers an insolvency event (e.g. an administrator is appointed, an order is made for the winding up of the relevant party, etc.);
- (ii) the conditions precedent are not satisfied or waived by the Cut Off Date or otherwise become incapable of satisfaction;
- (iii) the Shareholder approval sought pursuant to this Notice of Meeting is not obtained; or
- (iv) the other party does not complete the Acquisition as agreed and fails to remedy that failure within 10 business days of receiving notice to do so.

(g) Count shares in the Company

The CBA Seller has undertaken to procure that the shares in the Company held by Count are transferred to another member of the CBA group prior to Completion.

(h) Warranties and indemnities

The Share Sale Deed contains limited representations, warranties and indemnities that are consistent with the commercial agreement made between the parties in light of the due diligence conducted by the respective advisers and the Company and the substantive client remediation indemnity regime set out in separate documentation – being the Indemnity Deed – as described further in section 3.6.

3.5 Other Acquisition documents

In addition to the Share Sale Deed, the following other key documents will be entered into by or on Completion:

- ▶ an Indemnity Deed between the Company, CBA and Count, pursuant to which CBA indemnifies the Company for certain agreed, liabilities of Count arising primarily from historical conduct, as described in section 3.6 below;
- ▶ an Indemnity Deed Poll by CBA in favour of Count's customers, pursuant to which CBA indemnifies Count's customers for certain agreed liabilities;
- ▶ a Transitional Services Agreement between the Company and CBA, pursuant to which CBA provides certain services and resources which are currently provided to Count pursuant to "shared" arrangements for a transitional period post-Completion;
- ▶ a Secondment Agreement between Count and CBA, pursuant to which CBA provides certain CBA employees to Count for a transitional period post-Completion;
- ▶ a loan agreement between the Company and the Count Member Firm Special Purpose Vehicle pursuant to which the Company lends the Count Member Firm Special Purpose Vehicle an amount of \$375,000 to fund its purchase of 15% of the Sale Shares; and
- ▶ Call Option Deeds between the Company and:
 - ▶ the Count Member Firm Special Purpose Vehicle, under which the Company has a call option to acquire those Sale Shares held by the Count Member Firm Special Purpose Vehicle at an exercise price of \$375,000; and
 - ▶ the sole shareholder of the Count Member Firm Special Purpose Vehicle (i.e. the trustee of the trust), under which the Company has a call option to acquire the shares in the Count Member Firm Special Purpose Vehicle at an exercise price of \$1.00.

3.6 Indemnity Deed and Indemnity Deed Poll

(a) Background

As Shareholders may be aware, the Royal Commission considered, amongst other things, misconduct of Count across a range of activities in the operation of its advisory business. Findings were made of charging of fees to orphan clients, charging of fees to deceased clients, charging fees for services not provided, and certain others. Count and CBA have been undertaking, and continue to undertake, certain remediation activities in relation to these matters and to engage with ASIC in relation to their implementation.

These remediation activities are continuing and a majority of them are not expected to be completed by Completion when the Company acquires Count.

The Company, with the assistance of its professional advisers, conducted extensive due diligence investigations with respect to the various historical issues in Count across the operation of its advisory business and the likelihood that these issues will give rise to liabilities to be satisfied post Completion of the Acquisition. These due diligence investigations involved interviews with senior Count management and extensive interrogation of relevant materials, including by:

- (i) review of materials initially provided by CBA in a comprehensive electronic data room, including correspondence between ASIC and Count/CBA, and of further materials provided by CBA following additional requests from the Company and its advisers during the conduct of the Company's due diligence investigations and negotiation of the Acquisition documentation;

- (ii) extensive Q&A between CBA and the Company and the Company's advisers in the data room with respect to the materials reviewed; and
- (iii) discussion and Q&A in multiple face-to-face workshops with respective relevant representatives from CBA and the Company.

In that context, as an essential element of the Acquisition from the Company's perspective in relation to certain known and unknown historical liabilities of Count which may emerge, CBA and the Company have agreed to a liability regime under which CBA will indemnify or reimburse (as applicable) the Company for:

- (i) loss, (including losses, liabilities, damages, costs, charges and expenses), suffered or incurred by the Company, Count or any Group member arising as a result of three categories of conduct as described in section 3.6(b) (**Indemnified Conduct**); and
- (ii) certain costs to be incurred on behalf of a Group member (including Count) in connection with two categories of matters requiring system/process uplifts to Count's standards of operation and good conduct as described in section 3.6(c) (**Potential Uplift Matters**).

(b) Indemnified Conduct

The indemnity provided by CBA under the Indemnity Deed is for a maximum amount of \$200 million. The reasons for the Company's assessment that this amount is anticipated to be adequate is explained in detail at paragraph 3.6(f) below.

The three categories of Indemnified Conduct for which CBA will indemnify the Company under the Indemnity Deed are:

- (i) **Known Indemnified Matter:** these are specified categories of remediation tasks that are known as requiring remediation at the Completion Date, and occurred wholly prior to Completion; they include all open matters reported by CBA to ASIC (save where an adviser has been reported but is still under investigation and no determination has been made on if remediation is required based on the conduct of the adviser), and include (but are not limited to):
 - (A) **Ongoing Service/Fees for no service (OGS):** this relates to remediation of ongoing service delivery failures by Count advisers to customers in accordance with the remediation methodology to be adopted by CBA;
 - (B) **Orphan clients:** this relates to customers assigned to Count head office who paid fees under ongoing advice arrangements and who were not provided the required ongoing service;
 - (C) **Deceased estates:** this relates to the remediation of customers of Count advisers who were charged adviser service fees after their death in circumstances during a specified period where there is no evidence to show that an arrangement to continue charging the fee was in place with the surviving party of a joint arrangement, customer's legal personal representative or beneficiaries;
 - (D) **Fee Disclosure Statements (FDS):** this relates to inaccurate disclosure in FDSs of fees paid or the associated services in relation to FDS issued by Count during a specified period, to the extent they have been identified and notified to ASIC prior to the Completion Date, being issues relating to
 - (I) incorrect fees being stated due to the omission of one month of fees; or
 - (II) the disclosure of fees over a different period to that specified in the FDS; and
 - (E) **SMSF advice:** this relates to any necessary remediation arising out of ASIC's request for a review of certain self-managed super fund advices.

For the avoidance of doubt, the identification of the categories of remediation referred to above and the assessment of the quantification of the liability potentially arising out of each of them was critically assessed by the Company, assisted by its advisers, over several months during the due diligence process. Further detail is provided in paragraph 3.6(f).

- (ii) **Unknown Pre-Completion Matter:** these are matters which are not a 'Known Indemnified Matter' at Completion, but that are discovered after Completion as relating to conduct of Count or its authorised representatives which occurred wholly or partly prior to Completion and where the matter meets one of the following criteria:
 - (A) there is a legal obligation on CBA or Count to remediate;
 - (B) ASIC has issued a formal written direction to CBA, Count or the Company to remediate (noting at this time ASIC does not have the statutory power to compel compliance with any such written direction) and the Risk Support Committee (described in section 3.6(e)) having regard to the remediation principles set out in the Indemnity Deed has agreed that the matter should be covered; or
 - (C) CBA has determined that the matter should be covered, having regard to the remediation principles referred to above.

Based on its due diligence investigations and the comprehensive coverage of the key categories of misconduct covered by the Known Indemnified Matters, the Directors anticipate that this limb of the indemnity provides sufficient protection for the Company in respect of what might be Unknown Pre-Completion Matters where there is a legal obligation on CBA or Count to remediate.

- (iii) **Indemnified Post-Completion Matter:** this relates to certain forms of serious adviser misconduct (for example, fraud, breach of law more likely than not to result in criminal prosecution, and wilful and serious misconduct), which occurs during the period commencing on the Completion Date and ending on the date that is five calendar months after the Completion Date. While the conduct must have occurred during this period to fall within this category, there is a longer period of time to resolve the claims, as set out in section 3.6(g)(iii).

The Directors consider that in the context of the endeavours of CBA over the past period and continuing until Completion to identify and terminate the engagement of advisers engaging in material misconduct, fraud or breaches of law more likely than not to result in criminal prosecution, and with the intended immediate audit program the Company intends to implement promptly following Completion, the 5 month period provides a reasonable amount of time for the Company to identify such serious adviser post Completion misconduct.

- (iv) **Scope of loss covered by the Indemnity Deed:** Subject to the liability cap as referred to in paragraph 3.6(f) and the time limits referred to in 3.6(g), the losses against which the Company is indemnified are losses suffered or incurred by the Company, Count or any Company group member which arises out of the conduct of Count defined in the Indemnity Deed as Indemnified Conduct. This does not exclude fines or penalties imposed on Count arising out of regulatory action taken in relation to such matters. The Company has not been informed of any such intended action by either CBA or ASIC. Further, the legal costs and all other expenses incurred by CBA or any CBA group member in connection with the remediation activities are to be funded and paid for by CBA in accordance with the Indemnity Deed. CBA undertakes not to make a claim or seek reimbursement of any costs and expense incurred in conducting the remediation activities, except in exceptional circumstances where CUP takes over remediation activities and costs have been incurred by it which have not been approved by the Risk Committee.

(c) Potential Uplift Matters

The following are a further two categories of issues that may result in Count needing to make system/process uplifts, which CBA will reimburse the Company for the cost of under the Indemnity Deed if and once incurred by or on behalf of a Group member:

- (i) **Best Interest Duty:** this relates to the implementation of potential recommendations for improvement/uplift by KPMG which has been commissioned to prepare a report following its review of sample Count files between May 2019 and July 2019 to promote Count's compliance with the "best interest duty" to its clients and the effectiveness of Count's "best interest duty" auditing processes. This reimbursement provision is capped at \$500,000 and the uplift requirements are to be completed, and all reimbursement requests must be made, within 24 months of the date of the Indemnity Deed. As at the date of this Notice of Meeting (given the KPMG report is yet to be issued and the cap may be adjusted thereafter, as explained below), the Directors are satisfied that \$500,000 will be sufficient to cover the costs associated with the Company carrying out any "best interest duty" uplift requirements recommended by KPMG. This assessment has been made in the context of, and been substantially informed by, the Company's successful and rigorous implementation in its TFS advisory business of a similar "best interest duty" auditing and improvement process over a 2 year period, from which it has emerged in compliant and "fit for purpose" condition. The Company is aware of what is likely to be entailed in implementing this program and considers that \$500,000 will be sufficient for this purpose. After the KPMG report has been finalised (the report is currently expected to be finalised on or before 30 September 2019), the parties will confer and negotiate in good faith and discuss whether to increase or decrease the cap, and whether the Company or CBA should implement the uplift requirements. There is no guarantee that the cap will be adjusted, but as noted above, the parties are required to reconsider the cap, in good faith, once the findings of the KPMG report are available; and
- (ii) **Supervision and Monitoring Framework:** this relates to a possible uplift program arising from CBA's internal audit review of Count's supervision and monitoring framework. This reimbursement provision is capped at \$750,000 and the uplift requirements are to be completed, and all reimbursement requests must be made, within 24 months of the date of the Indemnity Deed. As at the date of this Notice of Meeting, the Directors are satisfied that \$750,000 will be sufficient to cover the costs associated with the Company carrying out these supervision and monitoring requirements. This assessment has been made in the context of, and been substantially informed by, the Company's cost effective, successful and rigorous implementation in its TFS advisory business of a similar "supervision and monitoring" improvement process over a 2 year period from which it has emerged in compliant and "fit for purpose" condition.

(d) Control of remediation and operation of the indemnities – excluded costs

The default position is that CBA will run the remediation program, with an ability for the Risk Support Committee to determine if it is more appropriate for the Company to run the remediation activities.

Where the Company runs remediation, CBA will indemnify the Company for costs that have been approved in writing by the Risk Support Committee. As stated above, the legal costs and all other expenses incurred by CBA or any CBA group member in connection with the remediation activities are to be funded and paid for by CBA in accordance with the Indemnity Deed. CBA undertakes not to make a claim or seek reimbursement of any costs and expense incurred in conducting the remediation activities, except in exceptional circumstances where CUP agrees to take over certain remediation activities and it incurs costs in relation to those certain remediation activities, which have not been approved by the Risk Committee.

The Company has made provision in its financial model for the recruitment of additional staff to monitor and liaise with CBA as the remediation program is implemented by CBA. These costs will not be covered or subsidised by the indemnity provided by CBA and will be borne exclusively by the Company. The Company has also made provision in its model for expenses it proposes to incur in investment in software and technology for its expanded group post implementation in addition to the items required to implement the uplift matters referred to above and these investments in software and technology will also be borne exclusively by the Company.

(e) Risk Support Committee

A committee will be established, comprised of an equal number of members from CBA and the Company, to oversee the remediation work. This will include determining whether claims should be treated as Unknown Pre-Completion Matters, determining funding required, preparing remediation protocols and monitoring remediation deliverables.

(f) Liability caps

The indemnity is subject to a \$200 million monetary cap, which can be increased (or decreased) by further agreement between the parties. The parties will meet to discuss in good faith potential changes to the monetary cap if:

- (i) a review of the refund rates for OGS matters, which will be undertaken at an agreed time, is materially greater or less than the estimated rate used to agree the monetary cap; or
- (ii) the aggregate amounts paid in relation to certain categories of inappropriate advice given by Count advisers prior to Completion exceeds a specified monetary threshold.

The Company has assessed the adequacy of the \$200 million monetary cap and considers that it provides a prudent buffer for unforeseen remediation related costs above the anticipated amounts in that regard.

This conclusion has been drawn on the basis of the remediation provision recognised by CBA in its financial statements as at 31 March 2019 is \$144 million. The Company has interrogated CBA with respect to this provision insofar it relates specifically to Count.

This provision includes \$140 million in estimated customer refunds in respect of OGS. The OGS provision assumes a refund rate of 24% (excluding interest) of the ongoing service fees collected by Count (in total) from FY09. That is, it assumes that 24% of the ongoing service fees generated by Count (in total) from FY09 will be refunded plus interest.

The indemnity cap of \$200 million therefore reflects approximately \$56 million (38.9%) more than the current provision, and is therefore expected by the Company to be sufficient to ensure that the Company does not incur any liability for remediation liabilities arising from misconduct which occurred prior to Completion. The Company's assessment also included the Company undertaking its own benchmarking and back testing of its own Count member firms.

However, while not presently expected, it is possible that:

- (i) actual costs in respect of presently known issues could exceed the indemnity cap of \$200 million; and
- (ii) currently unknown issues may arise that have a cost implication (which could also increase the total remediation costs above the indemnity cap).

To address this possibility, as noted above, the Indemnity Deed provides for the parties to meet to discuss in good faith potential changes to the monetary cap in the circumstances set out above. CBA and the Company have agreed that any proposed change to the cap will be subject to consultation with APRA and ASIC. However, it is noted that CBA is not legally bound to increase the cap. Whilst there is therefore some possibility that the Company could incur a liability associated with the above remediation liabilities, this is not expected to be the case because:

- (i) the current indemnity cap is some 39% above the provision for expected remediation liabilities as at 31 March 2019; and
- (ii) the Company's management expect that CBA will act in good faith and agree to any appropriate increase in the cap in the unlikely event that this is required (consistent with the basis upon which the parties have negotiated the Acquisition and related Indemnity Deed).

It should also be noted as previously disclosed in its most recent financial statements, the Company as at the date of this notice has undrawn debt facilities available to it of \$25 million and a net cash position which if it determined it appropriate it could apply to the extent it deemed appropriate to satisfy any remediation matters.

(g) Time limits

The indemnity is subject to the following time limits:

- (i) in respect of Known Indemnified Matters, all these matters are acknowledged in the Indemnity Deed as already notified and no time limit applies to the resolution of such claims;
- (ii) in respect of the Unknown Indemnified Matters, four (4) years from the date of the Indemnity Deed to notify CBA of an Unknown Pre-Completion Matter and no additional time limit applies to the resolution of such claims once notified; and
- (iii) in respect of the Indemnified Post Completion Matters:
 - (A) 5 months from the date of the Indemnity Deed to notify CBA of an Indemnified Post Completion Matter; and
 - (B) two (2) years from Completion to agree, comprise or settle an Indemnified Post-Completion Matter.

(h) Indemnity Deed Poll

CBA will also separately enter into an Indemnity Deed Poll in favour of Count customers. Under this document, CBA will directly indemnify customers for loss suffered by them due to certain conduct of Count or its advisers prior to the Completion Date that:

- (i) has given rise to a legal obligation on CBA or Count to remediate; and
- (ii) is agreed between CBA, CUP and Count to be attributable to CBA and requiring compensation from CBA.

The Indemnity Deed Poll effectively provides those customers with an opportunity to claim reimbursement directly from CBA, instead of through Count or the Company, which would then rely on CBA through the Indemnity Deed to make the relevant payment.

If a customer has been reimbursed directly through the Indemnity Deed Poll, the Company cannot claim reimbursement of that same amount from CBA under the Indemnity Deed as this would be a "double claim".

The Risk Support Committee convened under the Indemnity Deed will also have oversight of remediation pursuant to the Indemnity Deed Poll.

3.7 Transitional Services Agreement

As noted in section 3.4(d), the parties will prepare for the separation of Count from the wider CBA group by making certain agreed arrangements pre-Completion.

After Completion, to the extent required by Count following its separation from CBA, CBA has agreed to provide certain transitional services and support to the Company, being:

- (a) IT support services, for a period of six months;
- (b) finance support, for a period of four months;
- (c) access to Janison, the learning management service, until 30 June 2020; and
- (d) assistance with locating suitable office space for the Company to accommodate extra staff following Completion of the Acquisition.

These transitional services will be provided for the terms set out above (with a right to seek a single three month extension), provided that the term expires no later than 30 June 2020.

The fee arrangements are time and material based on salary of persons involved (daily or hourly as applicable) and the Janison service access is charged at a fixed monthly fee.

3.8 Secondment Agreement

After Completion, CBA has agreed to second certain agreed CBA employees (their identities yet to be agreed) to Count for a six month period post-Completion, to perform certain tasks and duties and assist Count with various assignments as agreed.

CBA will continue to provide these employees with their employment-related entitlements during the secondment but Count will reimburse CBA for the costs of CBA employees that are reasonably incurred.

CBA will take reasonable steps to replace employees in certain circumstances, including if they take extended leave or depart from employment with CBA.

Count may elect to offer employment to those CBA employees who are seconded to Count and CBA must not encourage any such employees to decline offers from Count.

3.9 Board of Directors and other appointments

No changes are proposed to the Board of the Company as a result of the Acquisition.

It is proposed that Mark Rantall be appointed as the Chairperson of the board of directors of Count. It is also proposed that Bruce Foy, Michael O'Neill, Ray Kellerman and Matthew Rowe will be appointed to, and each of the current directors of Count will resign from, the board of directors of Count.

3.10 Why Shareholder approval is required

The Company is seeking the approval of Shareholders in accordance with Listing Rule 10.1 for the Acquisition in accordance with the terms and conditions set out in this Notice of Meeting.

Listing Rule 10.1 restricts an entity and its child entities from acquiring a "substantial asset" from, amongst others, a "substantial holder" in the entity without the approval of holders of the entity's ordinary securities.

(a) Count as a substantial asset

An asset is a "substantial asset" for the purposes of Listing Rule 10.1 if its value, or the value of the consideration for it, is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the Listing Rules.

The Company's financial statements for the half-year ending 31 December 2018 shows that its equity interests were approximately \$56.5 million. As the value of Count's assets exceeds 5% of the equity interests of the Company, the ASX has determined that Count is a "substantial asset" being acquired by the Company and the Count Member Firm Special Purpose Vehicle.

(b) CBA as a substantial holder

A party is considered a "substantial holder" of an entity for the purposes of Listing Rule 10.1 if it and its associates have, or had at any time in the six (6) months prior to the transaction, a relevant interest in at least 10% of the total votes attaching to the voting securities in the entity.

As set out in section 3.2, Count has an approximate 35.85% shareholding in the Company. As Count is a wholly-owned subsidiary of the CBA Seller which, in turn, is a wholly-owned subsidiary of CBA, both the CBA Seller and CBA are associates of Count and have relevant interests in the Company shares held by Count. As CBA and the CBA Seller are "substantial holders" of the Company, the Acquisition is a transaction with a "substantial holder" of the Company.

(c) Requirement for shareholder approval

On the basis of the above conclusions, the completion of the Acquisition will result in the acquisition of a substantial asset from a substantial holder of the Company, such that ASX requires Shareholder approval of the Acquisition. Consequently, the Resolution seeks Shareholder approval of the Acquisition for the purpose of Listing Rule 10.1.

3.11 Independent Expert's Report

In accordance with the requirements of Listing Rule 10.10.2, the Company has commissioned the preparation of an Independent Expert's Report. The Independent Expert's Report sets out a detailed examination of the Acquisition to enable Shareholders to assess the merits of, and decide whether or not to approve, the Resolution.

The Independent Expert has concluded that the Acquisition as set out in the Explanatory Notes and in the enclosed Independent Expert's Report is fair and reasonable to the non-associated Shareholders.

Shareholders are encouraged to carefully read the Independent Expert's Report to understand its scope, the methodology of the assessment, the sources of information and the assumptions made.

The Independent Expert's Report is included with this Notice of Meeting in section 5.

The Independent Expert's Report may also be accessed on the Company's website at:

<https://www.countplus.com.au/shareholder-centre/> and, if so requested, the Company will send to the Shareholder a hard copy of the Independent Expert's Report at no cost.

The Independent Expert has given, and has not before the date of this Notice of Meeting withdrawn, its consent to the inclusion of the Independent Expert's Report in this Notice of Meeting and to the references to the Independent Expert's Report in these Explanatory Notes being made in the form and context in which each such reference is included.

3.12 Advantages and disadvantages

The Board is of the opinion that the benefits of the Acquisition include that:

- (a) the Company is the "natural home" for Count and, as such, the Acquisition is a strong strategic fit for the Company. The Acquisition is consistent with the Company's core business, being "converged" accounting and financial advice professional firms;
- (b) the purchase price is attractive and represents a significant discount to net tangible asset backing of the Count business on Completion of around \$14.8 million. The purchase price is also significantly less than the value range of \$9 million to \$20 million in the Independent Expert's Report;
- (c) the net cash position of Count on Completion will be around \$11.95 million, reflecting the level of risk of the transition and the need to restructure Count. As such, the Company is effectively being funded for the costs of transition and restructure;
- (d) the Company's management believe the Count business can transition to profitability under the Company's ownership with a significantly lower overhead structure;
- (e) in the event that Count's transition to profitability is unsuccessful, it may be possible to reduce the size of the business to a desirable and sustainable scale before the Company faces significant financial exposure;
- (f) Count will provide scale and diversity to the existing Group business and a further exposure to the convergence in Accounting led Financial Advice firms; and
- (g) the Independent Expert has concluded that the Acquisition is fair and reasonable to the non-associated Shareholders. See the Independent Expert's Report for further information.

The Board is of the opinion that the potential disadvantages of the Acquisition include that:

- (h) Count has generated significant operating losses as part of CBA over recent years and requires restructuring in order to achieve a turn-around in financial performance. This could be a result of an inflated cost structure that includes significant overhead charges from the broader CBA group. There is a risk that a transition to profitability cannot be achieved under the Company's ownership;

- (i) under CBA's ownership, Count has incurred very significant client remediation costs. Mitigating the risk of historical issues and some potential futures issues is the fact that CBA is providing significant indemnities to the Company for certain liabilities arising from Count under CBA ownership; however, these indemnities may not be sufficient to cover the eventual costs of remediation. Should similar issues arise in the future, the Company and/or Count may be exposed. The Company intends to seek professional indemnity insurance against this risk but, as at the date of these Explanatory Notes, the Company has not put this cover in place;
- (j) the Government has indicated an end to grandfathered commission payments in January 2021. Currently, such payments constitute a significant proportion of Count revenue. There is a revenue risk to Count from these proposed changes and a need for Count's business to transition towards fee-for-service and/or other permissible revenue models;
- (k) it will increase the Company's relative exposure to the financial planning sector and the current regulatory and other associated risks, and decrease the Company's relative exposure to accountancy;
- (l) the Company has limited management resources. Integration and turn-around tasks associated with the Acquisition will consume significant management time which would otherwise have been available for possible alternative growth opportunities; and
- (m) the Company and its Shareholders may be exposed to certain other risks associated with the Acquisition, as detailed further in section 3.13.

Further advantages and disadvantages as determined by the Independent Expert are set out on pages 4 to 5 and 37 to 39 of the Independent Expert's Report.

3.13

Risks

There are a number of risks associated with the Acquisition. These include the risks set out below. Shareholders should give careful consideration to the risks, noting the steps the Company is taking to mitigate them.

(a) Royal Commission findings and remediation

The Royal Commission made a number of findings about Count and other wealth management businesses in Australia, including the specific findings against Count referred to in section 3.6.

The Royal Commission made a number of recommendations to tighten regulations affecting industry operators, which are expected to have an impact on the wider industry. It is possible that there will be additional regulatory action in relation to matters raised in the Royal Commission. Count has been engaging with the regulators, including ASIC, in respect of remediation identified through the Royal Commission process, self-reporting and other engagement with ASIC, and to remediate affected clients as explained in this Notice of Meeting. It is possible that ASIC or other regulators may require further information from Count or may take further steps regarding Royal Commission findings.

CBA will be responsible for conducting the remediation activities referred to above. Count and the Company will enter into the Indemnity Deed with CBA as described in this Notice of Meeting to ensure those remediation activities are conducted by CBA and funded by CBA as provided for in the Indemnity Deed. However, there is a risk that the extent and maximum amount of the indemnity may not be sufficient to cover Count's actual exposure. If so, Count will need to draw on its own cash reserves to meet such claims and, where those are insufficient, may require assistance from the Company or other Group members. This may have a material adverse effect on the financial position of the Group.

(b) Changes in revenue

Historically, Count's revenue has included licensee advice fees and platform rebates pursuant to grandfathered arrangements.

Whilst the Future of Financial Advice legislation implemented on 1 July 2013 banned upfront and trailing commissions, a concession by the then government allowed pre-2013 arrangements to continue on the basis that they were "grandfathered". The Royal Commission recommended that these grandfathered arrangements for conflicted remuneration in relation to financial advice provided to retail clients be removed as soon as reasonably practicable. In its response to the Royal Commission, the Government announced that it would end grandfathering of conflicted remuneration to financial advisers effective from 1 January 2021, which is expected to reduce the revenue receivable by licensees such as Count.

Legacy revenue streams associated with Count's platform contracts include licensee adviser fees (which ceased from 1 March 2019) and platform rebates (which are decreasing based on grandfathering run-out). As such, while Count (and therefore the Group from Completion) may benefit from legacy income until 1 January 2021 (e.g. platform rebates and investment trail commissions), Count is expected to experience an approximate 60% revenue decrease in this regard once all expected reforms are implemented. There is accordingly a risk that the loss of the licensee advice fees and grandfathered commissions will have a material impact on Count's revenue, and therefore profitability. There is also a risk that platform providers may seek to terminate their arrangements if they do not consider the arrangements to be in their interest once the revenue arrangements change.

The Company, in the conduct of its own advisory business, has already commenced moving to a new pricing model for its clients. The Company is also planning to substantively revise the Count pricing model accordingly.

(c) Member firms

Historically, member firm attrition has been mitigated under the current model which has been characterised by selective discounts to fees charged by Count to members of up to 45% and discounts provided to members on the recovery of various charges by Count.

Due to the changes in revenue described in section 3.13(b) above, Count must transition to a new revenue model which covers costs and delivers a return to Count as member firm licensor. It is expected that there will be a repricing of licensor services in the market generally. As a result of the envisaged market re-pricing, there is a risk that Count's member firms may terminate their arrangements with Count if they do not support the new pricing model. This may have a material impact on Count's revenue and future profitability.

There is also a risk that the member firms may leave Count's network as a result of the proposed change in ownership of Count.

(d) Completion risk

While the General Meeting will be held in August 2019, the Acquisition is not expected to complete until October 2019.

There is a risk that new matters may arise between the General Meeting and Completion which may have a material adverse impact on Count, such as the findings of the KPMG report as referred to in section 3.13(e) below. This may in turn have an adverse impact on the Company's share price if the market does not respond favourably to the findings in that report.

There is also a risk that Completion may not occur, for example, if a condition to Completion is not satisfied (such as Shareholders not passing the Resolution by the requisite majority) or waived or if a party terminates the Share Sale Deed. If Completion does not occur, there is a risk that the Company will incur costs or suffer losses in relation to the circumstances surrounding non-Completion. This may also have an adverse impact on the Company's share price.

(e) KPMG Report

KPMG has been engaged by CBA to review Count's practices and compliance with the best interest duty and related obligations. This report is expected to be published on or before 30 September 2019 and will contain KPMG's recommendations for uplift requirements (if any) in relation to Count's compliance with the best interest duty and related obligations or Count's auditing process in respect those obligations.

There is a risk that KPMG may find that there is substantial uplift work required or make other adverse findings in its report. While the Indemnity Deed contains an indemnity from CBA in favour of the Company for costs incurred by any Group member in connection with implementing these uplift matters, this indemnity is capped at \$500,000 (subject to adjustment by mutual agreement, as noted in section 3.6(c)(ii)) and the uplift requirements are to be completed, and all reimbursement requests must be made, within 24 months of the date of the Indemnity Deed. There is a risk that the uplift work may exceed these caps. If so, Count will need to draw on its own cash reserves to meet such claims and, where those are insufficient, may require assistance from the Company or other Group members. This may have a material adverse effect on the financial position of the Group.

(f) Separation risk

Count presently uses a number of shared services provided by CBA. These include access to CBA's premises, IT services and systems licensed by CBA, and use of documents and other materials which CBA has copyright rights over.

As part of the Acquisition, the parties will seek to separate Count from CBA pre-Completion (to the extent practicable) and CBA will provide certain support post-Completion on a transitional basis, as described further in section 3.7.

There is a risk that the separation steps may take longer than anticipated to implement, may require further resources than anticipated or may cost more than estimated, which may have a material adverse impact on the Group's financial position and performance.

(g) Integration and operational risk

After Completion, the Company's management will be responsible for integrating Count into the wider Group.

There will be risks involved in bringing the business into the Group and integrating the business. These risks may relate to the transition of a business from being owned by CBA and implementing the Group's standardised systems, policies and procedures for Count. Unexpected difficulties in integrating Count may result in higher than expected integration or operating costs, potential disruption to Count and the wider Group, and loss of clients and key relationships with suppliers.

After Completion, the Group will also include an enlarged network of member firms for the Group's employees to manage.

There is a risk that the Company may not be adequately resourced to manage the enlarged network of member firms, which may result in higher than expected resourcing costs and requirements potential disruption to the member firms and the wider Group, and loss of relationships with member firms.

The Company has considered this risk associated with operating an enlarged network of member firms and following a detailed due diligence and financial modelling exercise has factored such additional costs into its financial model. Such additional provisions factored into this financial model include additional staff costs and costs associated with installing appropriate software and technology solutions to monitor the enlarged network of member firms.

(h) Cultural risk

The Royal Commission, as well as the report published by the Australian Prudential Regulation Authority on 30 April 2018, identified shortcomings in CBA's culture and the culture of wealth management businesses generally.

While Count has taken steps to identify and deal with its culture and high risk advisers, there is a risk that there may still be cultural problems in Count. While the Indemnity Deed contains an indemnity from CBA in favour of the Company for loss suffered by the Company, Count or the other Group members in connection with "Indemnified Post-Completion Matters" (i.e. where Count advisers act fraudulently, etc. during a buffer period post-Completion, as detailed in section 3.6), there is a risk that the Company may not identify all such high risk advisers during this buffer period. Any loss suffered outside of the buffer period will not be covered and will need to be worn by Count, the Company or the wider Group.

(i) Reputational risk

Count and CBA have been subject to negative publicity due to the Royal Commission findings.

Once the Company acquires Count, there is a risk that the Company may suffer similar reputational damage to that suffered by Count.

Further, if the client remediation process is not implemented in a timely manner to the satisfaction of affected clients, there is a risk that this may affect the Company's reputation if such inadequate remediation occurs while Count is owned by the Company.

(j) Adviser supervision and monitoring framework

Count has commenced a program of work to address a number of control issues which were identified by CBA's group audit and assurance team in its 2018 audit. The program will review and implement changes across processes, people, systems, policies and remuneration structures. ASIC has been provided with information related to the program and will continue to be provided with progress updates. The Company will be required to undertake the work required to complete the program of work.

There is a risk that the program may have a significant impact in terms of time, money and resources required by the Company as a result of the above. Under the Indemnity Deed, CBA will reimburse the Company for costs incurred by or on behalf of any Group member in connection with implementing this program, up to \$750,000 (as noted in section 3.6(c)(ii)) and the uplift requirements are to be completed, and all reimbursement requests must be made, within 24 months of the date of the Indemnity Deed. There is a risk that the implementation work may exceed these caps. If so, Count will need to draw on its own cash reserves to meet such claims and, where those are insufficient, may require assistance from the Company or other Group members. This may have a material adverse effect on the financial position of the Group.

(k) Australian Financial Services Licence

Count holds an Australian Financial Services Licence. As a licensee, Count is required to comply with the conditions of its licence, as well as the general conditions in the Corporations Act applying to licensees.

Count has historically maintained compliance with its financial requirements under the licence by virtue of support from CBA, including parent guarantees. This support will cease to apply from Completion.

The Company considers that Count will be able to continue to comply with its obligations as a licensee on and from Completion. With the assistance of its financial and professional indemnity insurance advisers, the Company subjected itself to a thorough due diligence process to confirm that post Completion it will have the financial capacity to procure from a third party insurer appropriate insurance cover. The Directors are satisfied that this third party insurance cover in conjunction with the Indemnity Deed and the cash reserves available in Count on completion (see section 3.4(b)) would ensure Count's compliance with its AFSL obligations pursuant to the relevant Corporations Act provisions and ASIC Regulatory Guide 166 and ASIC Regulatory Guide 126. Further, as previously disclosed in the Company's most recent financial statements, and as the date of this Notice of Meeting, the Company has undrawn debt facilities available of \$25 million and a net cash position which it could apply to the extent it deemed appropriate to satisfy any of Count's AFSL compliance obligations. However, if, following Completion, Count ceases to be able to comply with these obligations, there is a risk that ASIC may suspend, revoke or amend the conditions of Count's licence.

(l) Key personnel

Prior to Completion, the Company can request that CBA procures that Count makes offers of employment to certain employees (as agreed between CBA and the Company) prior to Completion, with such offers to be conditional on Completion occurring.

Separately, Count and CBA have agreed that, for a six month period post-Completion, CBA will second employees to Count to assist in the Count business. Count may also elect to offer employment to CBA employees seconded to Count under this arrangement.

There is a risk that CBA employees to whom Count or the Company offer employment may not accept that offer, e.g. if the terms of employment offered are not acceptable to the relevant employee, or if the personnel prefer to remain with CBA or seek other employment. The loss of any key personnel may have a material adverse effect on Count's ability to conduct its activities.

As a holder of an Australian Financial Services Licence, Count also has responsible managers (who are currently employed by CBA) and a key person (although CBA has applied to have this condition be removed). If any responsible managers cease to be engaged as responsible managers of Count, Count will need to find suitable replacements. While the Company considers that it will have access to suitable replacements from its existing employees, if needed, there is a risk that ASIC may not agree with any replacements selected.

(m) Historical liabilities

Once the Company acquires (and therefore assumes the liabilities of) Count, there is a risk that Count's historical liabilities may be sizeable. While the Company has undertaken due diligence on Count to identify known and potential liabilities of Count (such as for breaches of law and other claims brought by clients), there is a risk that additional liabilities may be identified post-Completion.

The Company's ability to seek compensation or indemnification from CBA or the CBA Seller for claims or liabilities may be limited by various factors, including the specific time, monetary or other limitations contained in the Share Sale Deed and Indemnity Deed – in particular, there is a risk that further remediation items discovered are not covered by the indemnity in the Indemnity Deed or exceed the \$200 million cap.

(n) Economic and regulatory conditions

General economic conditions and the introduction of further regulatory and legislative changes (including additional scrutiny from ASIC) may increase the Group's operating costs and otherwise have an adverse effect on the Group's activities.

(o) Market conditions

Share market conditions (such as interest rates, inflation rates, changes in investor sentiment towards particular market sectors, etc.) may affect the value of the Company's quoted securities regardless of the Group's operating performance.

3.14 Interests of the Directors

As at the date of this Notice of Meeting, the Directors have the following voting power:

Name of Director	Number of Shares held	Percentage of voting power held
Ray Kellerman Independent Non-Executive Chairperson	750,000	0.66%
Matthew Rowe Managing Director and CEO	884,122	0.77%
Alison Ledger Independent Non-Executive Director	10,000	0.01%
Kate Hill Independent Non-Executive Director	100,000	0.09%
Andrew McGill Independent Non-Executive Director	10,000	0.01%

3.15 Recommendation of the Directors

The Directors unanimously approve the proposal to put the Resolution to Shareholders for their approval.

The Board has carefully considered the advantages and disadvantages and evaluated their relative weight in the circumstances of the Company. The Board unanimously believes that the sum of the advantages outweighs the sum of the disadvantages and that the Acquisition is in the best interests of existing non CBA Shareholders as a whole for the reasons set out in these Explanatory Notes and the Independent Expert's Report.

The Directors unanimously recommend that Shareholders vote in favour of the Resolution and intend to vote all Shares held or controlled by them in favour of the Resolution.

The Chairperson intends to exercise all available proxies in favour of the Resolution.

3.16 Further information

If you have any questions or need more information about the Resolution, please contact the Company Secretary, Narelle Wooden, on 1300 825 295.

In this Notice of Meeting, unless the context or subject matter otherwise requires:

Acquisition	The acquisition by the Company and the Count Member Firm Special Purpose Vehicle of Count, on the basis set out in the Explanatory Notes.
ASIC	Australian Securities and Investments Commission.
Associate	Has the meaning given to that term in Part 1.2, Division 2 of the Corporations Act.
ASX	ASX Limited (ACN 008 624 691) or the stock exchange which it operates, as the context requires.
Board	The board of Directors.
Business Day	A day on which banks are open for general banking business in Sydney, Australia, excluding Saturdays, Sundays and public holidays.
CBA	Commonwealth Bank of Australia (ACN 123 123 124).
CBA Seller	Capital 121 Pty Limited (ACN 003 148 187).
Company or CUP	CountPlus Limited (ACN 126 990 832).
Company Secretary	The company secretary of the Company.
Completion	Completion of the Acquisition.
Completion Date	The date on which Completion occurs.
Corporations Act	<i>Corporations Act 2001</i> (Cth) as amended from time to time.
Corporations Regulations	<i>Corporations Regulations 2001</i> (Cth) as amended from time to time.
Count	Count Financial Limited (ACN 001 974 625).
Count Member Firm Special Purpose Vehicle	A new, special purpose proprietary limited company, established to acquire 15% of the Sale Shares from the CBA Seller. This special purpose proprietary limited company is owned by a proprietary limited company acting as trustee of a discretionary trust, the beneficiaries of which are Count adviser member firms from time to time as nominated by the trustee on the basis explained in this notice. The Company is expressly excluded from being a beneficiary of the trust.
Directors	The directors of the Company.

Explanatory Notes	The explanatory notes accompanying the Notice of Meeting.
FY18 Annual Report	The Company's annual report for the financial year ended 30 June 2018, accessible at: https://www.countplus.com.au/assets/reports/CUP-Annual-Report-FY18-Final2.pdf .
General Meeting	The extraordinary general meeting of the Company to be held at the time and place specified in the Notice of Meeting.
Group	The Company and its subsidiaries.
Indemnified Conduct	Has the meaning given to that term in section 3.6 of this document.
Indemnified Post-Completion Matter	Has the meaning given to that term in section 3.6(b) of this document.
Indemnity Deed	The Indemnity Deed to be entered into between the Company, CBA and Count, as described in sections 3.5 and 3.6 of this document.
Indemnity Deed Poll	The Indemnity Deed Poll to be entered into by CBA in favour of Count's customers, as described in sections 3.5 and 3.6 of this document.
Independent Expert	Lonergan Edwards & Associates.
Independent Expert's Report	The expert report prepared by the Independent Expert and attached as section 5 of this document.
Known Indemnified Matter	Has the meaning given to that term in section 3.6(b) of this document.
Listing Rules	The official Listing Rules of the ASX.
Notice of Meeting	This document, comprising the Chairperson's letter, notice of meeting and Explanatory Notes.
Potential Uplift Matters	Has the meaning given to that term in section 3.6 of this document.
Resolution	The resolution to be considered by Shareholders at the General Meeting, as set out in this Notice of Meeting.
Risk Support Committee	The committee referred to in section 3.6(e) of this document.
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
Sale Shares	100% of the shares in Count.

Secondment Agreement	The Secondment Agreement to be entered into between the Company and CBA, as described in sections 3.5 and 3.8 of this document.
Share Sale Deed	The Share Sale Deed entered into between the Company, the Count Member Firm Special Purpose Vehicle, the CBA Seller and CBA (as guarantor of the CBA Seller's obligations).
Shareholder	Holder of Shares.
Shares	Fully paid ordinary shares in the capital of the Company.
Transitional Services Agreement	The Transitional Services Agreement to be entered into between the Company and CBA, as described in sections 3.5 and 3.7 of this document.
Unknown Pre-Completion Matter	Has the meaning given to that term in section 3.6(b) of this document.





ABN 53 095 445 560
AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

The Independent Directors
CountPlus Limited
Level 17
1 Margaret Street
Sydney NSW 2000

28 June 2019

Subject: Acquisition of Count Financial

Dear Independent Directors

Introduction

- 1 On 13 June 2019, CountPlus Limited (CountPlus or the Company) and the Count Member Firm Special Purpose Vehicle¹ announced the acquisition of 100% of the shares in Count Financial Limited (Count Financial), a wealth advisory business currently wholly owned by the Commonwealth Bank of Australia (CBA) (the Acquisition).
- 2 The consideration for the shares in Count Financial comprises cash of \$2.5 million, of which:
 - (a) \$2.125 million will be payable by CountPlus for its 85% interest; and
 - (b) \$0.375 million will be payable by the Count Member Firm Special Purpose Vehicle.
- 3 CountPlus will provide a non-recourse loan to the Count Member Firm Special Purpose Vehicle to enable the Count Member Firm Special Purpose Vehicle to acquire its 15% interest².
- 4 In addition, CBA has given the following undertakings to CountPlus in relation to Count Financial:
 - (a) the business will be sold on a debt free basis (i.e. free from external indebtedness) with a normalised level of working capital
 - (b) net cash of \$11.95 million³ will be retained within Count Financial to ensure the business is well capitalised

¹ The Count Member Firm Special Purpose Vehicle is a company that has been established for the purpose of holding a 15% interest in Count Financial. The Count Member Firm Special Purpose Vehicle will be wholly owned by a corporate trustee of a discretionary trust, the beneficiaries of which will be those Count Financial member firms who meet certain client service and compliance benchmarks.

² In the event of business failure, it is possible that CountPlus may not recover its loan (\$375,000). However, given the expected net cash and net asset position on completion, we do not consider this outcome is likely.

³ Net of payables as set out in paragraph 109.

- (c) the parties will enter into an Indemnity Deed pursuant to which known and (in part) unknown liabilities to compensate parties adversely affected by certain conduct of the operation of the Count Financial business prior to the Acquisition will be met by CBA (Indemnity Deed). The liability of CBA under the Indemnity Deed will be up to a maximum of \$200 million⁴
- (d) the parties will enter into a transitional services agreement pursuant to which CBA will provide certain services to CountPlus to assist with the change in ownership of the Count Financial business
- (e) the parties intend to enter into commercial arrangements between Colonial First State Investments Limited, Avanteos Investments Limited (together, CFS⁵) and Count Financial, which provide for:
 - (i) the provision by CFS of certain services, facilities, education, training and technical support to Count Financial (if required); and
 - (ii) Count Financial to provide CFS with opportunities to interact with Count Financial's management and advisers for certain "permitted purposes", such as providing training, education and support, provided the independence of Count Financial to explore and establish whatever commercial relationships it considers to be in the best interests of clients is not compromised.

5 CBA is the largest shareholder in CountPlus, holding 35.9% of the ordinary shares on issue. Subsequent to completion of the Acquisition, CBA has stated an intention (subject to favourable market conditions) to dispose of its shareholding in CountPlus in an orderly manner.

Purpose

- 6 The Acquisition is a transaction with persons in a position of influence under the Australian Securities Exchange (ASX) Listing Rules and requires the approval of CountPlus shareholders that are not considered a party to the transaction (the CountPlus non-associated shareholders). The ASX Listing Rules require the notice of meeting sent to shareholders to include an independent expert's report (IER), stating whether the transaction is "fair and reasonable" to the CountPlus non-associated shareholders.
- 7 Accordingly, the Independent Directors of CountPlus have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER in accordance with ASX Listing Rule 10.10.2 stating whether, in our opinion, the Acquisition is fair and reasonable to the CountPlus shareholders not associated with CBA (the CountPlus non-associated shareholders⁶).

⁴ Refer paragraphs 111 to 118 for further information.

⁵ Both Colonial First State Investments Limited and Avanteos Investments Limited are wholly owned subsidiaries of CBA.

⁶ For the purposes of this report, all future references to "CountPlus shareholders" is a reference to the "CountPlus non-associated shareholders".

- 8 The LEA report will accompany the Notice of Meeting and Explanatory Statement to be sent by CountPlus to CountPlus shareholders in connection with the Acquisition. LEA is independent of CountPlus, Count Financial and CBA and has no involvement or other interest in the Acquisition.

Summary of opinion

- 9 In LEA's opinion the Acquisition is fair and reasonable to CountPlus shareholders. We have formed this opinion for the reasons set out below.

Value of CountPlus' 85% interest in Count Financial

- 10 As set out in Section V we have assessed the value of 100% of Count Financial at between \$9.0 million and \$20.0 million. CountPlus' 85% interest therefore has a value of \$7.7 million to \$17.0 million, as shown below:

Value of 85% interest in Count Financial		
	Low \$m	High \$m
100% value	9.0	20.0
Interest to be acquired by CountPlus	85%	85%
Value of 85% interest	7.7	17.0

Acquisition consideration

- 11 As stated above, if the Acquisition is approved and implemented, CountPlus will acquire an 85% interest in Count Financial for \$2.125 million.

Fairness

- 12 Pursuant to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), the Acquisition is “fair” if the value of the 85% interest in Count Financial being acquired is equal to, or greater than the value of the consideration being paid. This comparison is shown below:

Comparison of Acquisition Consideration to value of Count Financial			
	Low \$000	High \$000	Mid-point \$000
Value of 85% of Count Financial	7,650	17,000	12,325
Acquisition Consideration	2,125	2,125	2,125
Difference	5,525	14,875	10,200

- 13 As the value of the 85% interest in Count Financial to be acquired exceeds the consideration to be paid, in our opinion, the Acquisition is fair to CountPlus shareholders when assessed based on the guidelines set out in RG 111.

Reasonableness

- 14 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the Acquisition is also “reasonable” to CountPlus shareholders.

Advantages and disadvantages

- 15 We also summarise below the advantages and disadvantages of the Acquisition from the perspective of CountPlus shareholders other than CBA.

Advantages

- 16 As indicated above, in our opinion, the acquisition of Count Financial is value accretive for CountPlus as the purchase price of \$2.5 million (on a 100% ownership basis) represents a significant discount to:
- (a) the net tangible asset (NTA) backing of the business on completion of around \$14.8 million
 - (b) the net cash position of Count Financial on completion of around \$11.95 million⁷
 - (c) our assessed value of the Count Financial business under CountPlus ownership of \$9.0 million to \$20.0 million (on a 100% ownership basis).
- 17 Prima facie, the acquisition of Count Financial also appears to be a good strategic fit for CountPlus, with 15 CountPlus member firms already providing financial planning services under the Count Financial banner and its Australian Financial Services Licence (AFSL).
- 18 The Acquisition will also increase the scale and diversity of the CountPlus business, and is consistent with the increased market alignment expected between accounting firms and financial planning firms moving forward (as financial advisers are moving away from major institutions towards smaller independent businesses (including accounting firms) due to the changing regulatory environment).
- 19 The increase in the ability of CountPlus member firms to provide financial planning advice to their clients may also result in revenue and cost synergies in the medium to longer term.

Disadvantages, risks and mitigating factors

Risks during business transition

- 20 Count Financial has generated operating losses as part of CBA over recent years. However, these historical results do not reflect the earnings potential of the business under CountPlus ownership for the reasons outlined in paragraph 104. Based on the significant level of due diligence undertaken, CountPlus management believe the Count Financial business can transition to profitability under its ownership. Further, the Count Financial business will be well funded on completion, with the net cash balance of around \$11.95 million providing a significant buffer against future operating losses.
- 21 Should Count Financial not return to profitability⁸, CountPlus management have estimated that associated closure costs would be less than \$3.0 million (which should also be covered by the net cash balance of \$11.95 million in Count Financial on completion).

⁷ Net of payables as set out in paragraph 109.

⁸ CountPlus management have a target date of around June 2022 to assess the long-term profitability prospects of the Count Financial business.

- 22 Whilst there is a risk that operating losses and closure costs in the worst case scenario could exceed the net cash balance being acquired on completion, this risk should be balanced by the much greater value upside should the business return to profitability as expected.

Exposure to customer remediation liabilities

- 23 CBA is also providing significant indemnities to CountPlus, such that customer remediation liabilities arising from the operation of the Count Financial business prior to the implementation of the Acquisition will continue to be met by CBA up to the indemnity cap of \$200 million. While not presently expected, it is possible that:
- (a) actual costs in respect of presently known issues could exceed the indemnity cap of \$200 million
 - (b) currently unknown issues may arise that have a cost implication (which could also increase the total remediation costs above the indemnity cap).
- 24 To address this possibility, the Indemnity Deed states that the parties will meet to discuss in good faith potential changes to the indemnity cap if:
- (a) a review of the refund rates for ongoing service matters, which will be undertaken at an agreed time, is materially greater or less than the rate of 24%; or
 - (b) the aggregate amounts paid in relation to certain categories of inappropriate advice given by Count Financial advisers prior to completion exceeds \$12.5 million.
- 25 However, it should be noted that CBA is not legally bound to increase the cap.
- 26 Whilst there is therefore some possibility that CountPlus could incur a liability associated with the above remediation liabilities, this is not expected to be the case because:
- (a) the current indemnity cap is some 38.9% above CBA's provision for expected customer refunds as at 31 March 2019
 - (b) CountPlus management expect that CBA will act in good faith and agree to any appropriate increase in the cap in the unlikely event that this is required (consistent with the basis upon which the parties have negotiated the Acquisition and related Indemnity Deed); and
 - (c) Count Financial is a separate legal entity (which will not be guaranteed by CountPlus), and accordingly it will be possible to quarantine losses within Count Financial to minimise any impact on the value of CountPlus in the unlikely event that the remediation liabilities significantly exceed \$200 million and CBA refuses to increase the indemnity cap.

Overall opinion

- 27 On balance, we believe the advantages of the Acquisition significantly outweigh the disadvantages. Whilst there is some risk the Acquisition may not be successful due to the uncertainty associated with the current regulatory environment and related changing market conditions, in our view, the potential upside more than offsets these risks and provides

CountPlus with the opportunity to be a major independent provider of professional accounting and financial planning advice.

Other matters

- 28 In preparing this report we have considered the interests of CountPlus shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 29 The ultimate decision by CountPlus shareholders whether to approve the Acquisition should be based on each shareholder's assessment of the Acquisition. This report has been provided for shareholders in CountPlus not associated with CBA.
- 30 If in doubt about the Acquisition or matters dealt with in our report, CountPlus shareholders should seek independent professional advice. For our full opinion on the Acquisition, and the reasoning behind our opinion, we recommend that CountPlus shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative

Table of contents

Section	Page
I Key terms of the Acquisition	9
Key terms	9
Conditions	10
II Scope of our report	11
Purpose	11
Basis of assessment	11
Limitations and reliance on information	12
III Profile of CountPlus	13
Overview	13
Relationship with Count Financial	13
Financial performance	14
Financial position	15
Share capital	16
Significant shareholders	16
Share price performance	16
Liquidity in CountPlus shares	18
IV Recent developments in the financial planning sector	19
Current performance in the industry	19
FOFA reforms	21
The Royal Commission	22
Higher industry standards	25
Industry outlook	25
V Valuation of Count Financial	27
Overview	27
Financial performance	27
Revenue streams	28
Pro-forma balance sheet	28
Indemnity for remediation costs	29
Cash flow projections	30
Revenue assumptions	31
Operating costs assumptions	33
Discount rate	34
Terminal value	34
Closure scenario	34
DCF values	35
Cross-check to NTA	35

Section		Page
VI	Evaluation of the Acquisition	36
	Value of CountPlus' 85% interest in Count Financial	36
	Value of Acquisition consideration	36
	Fairness	36
	Reasonableness	36
	Advantages and disadvantages	36
	Overall opinion	38
	Other matters	39

Appendices

A	Financial Services Guide
B	Qualifications, declarations and consents
C	Glossary

I Key terms of the Acquisition

Key terms

- 31 On 13 June 2019, CountPlus Limited (CountPlus or the Company) and the Count Member Firm Special Purpose Vehicle⁹ announced the acquisition of 100% of the shares in Count Financial Limited (Count Financial), a wealth advisory business currently wholly owned by the Commonwealth Bank of Australia (CBA) (the Acquisition).
- 32 The consideration for the shares in Count Financial comprises cash of \$2.5 million, of which:
 - (a) \$2.125 million will be payable by CountPlus for its 85% interest; and
 - (b) \$0.375 million will be payable by the Count Member Firm Special Purpose Vehicle.
- 33 CountPlus will provide a non-recourse loan to the Count Member Firm Special Purpose Vehicle to enable the Count Member Firm Special Purpose Vehicle to acquire its 15% interest¹⁰.
- 34 In addition, CBA has given the following undertakings to CountPlus in relation to Count Financial:
 - (a) the business will be sold on a debt free basis (i.e. free from external indebtedness) with a normalised level of working capital
 - (b) net cash of \$11.95 million¹¹ will be retained within Count Financial to ensure the business is well capitalised
 - (c) the parties will enter into an Indemnity Deed pursuant to which known and (in part) unknown liabilities to compensate parties adversely affected by certain conduct of the operation of the Count Financial business prior to the Acquisition will be met by CBA. The liability of CBA under the Indemnity Deed will be up to a maximum of \$200 million¹²
 - (d) the parties will enter into a transitional services agreement pursuant to which CBA will provide certain services to CountPlus to assist with the change in ownership of the Count Financial business
 - (e) the parties intend to enter into commercial arrangements between Colonial First State Investments Limited, Avanteos Investments Limited (together, CFS¹³) and Count Financial, which provide for:

⁹ The Count Member Firm Special Purpose Vehicle is a company that has been established for the purpose of holding a 15% interest in Count Financial. The Count Member Firm Special Purpose Vehicle will be wholly owned by a corporate trustee of a discretionary trust, the beneficiaries of which will be those Count Financial member firms who meet certain client service and compliance benchmarks.

¹⁰ In the event of business failure, it is possible that CountPlus may not recover its loan (\$375,000). However, given the expected net cash and net asset position on completion, we do not consider this outcome is likely.

¹¹ Net of payables as set out in paragraph 109.

¹² Refer paragraphs 111 to 118 for further information.

¹³ Both Colonial First State Investments Limited and Avanteos Investments Limited are wholly owned subsidiaries of CBA.

- (i) the provision by CFS of certain services, facilities, education, training and technical support to Count Financial (if required); and
- (ii) Count Financial to provide CFS with opportunities to interact with Count Financial's management and advisers for certain "permitted purposes", such as providing training, education and support, provided the independence of Count Financial to explore and establish whatever commercial relationships it considers to be in the best interests of clients is not compromised.

35 CBA is the largest shareholder in CountPlus, holding 35.9% of the ordinary shares on issue. Subsequent to completion of the Acquisition, CBA has stated an intention (subject to favourable market conditions) to dispose of its shareholding in CountPlus in an orderly manner.

Conditions

36 The Acquisition is subject to:

- (a) CountPlus shareholders approving the Acquisition by the requisite majorities under ASX Listing Rule 10.1.3
- (b) an independent expert concluding that the Acquisition is fair and reasonable to CountPlus shareholders
- (c) no temporary restraining order, preliminary or permanent injunction or other order issued by any court or competent jurisdiction or governmental agency or other material legal restraint or prohibition preventing or delaying completion of the Acquisition is in effect at 9.00am on the date of completion.

37 Further details with respect to the Acquisition and the conditions to which it is subject are set out in the Notice of Meeting.

II Scope of our report

Purpose

- 38 The Acquisition is an acquisition of a substantial asset¹⁴ from a substantial shareholder¹⁵ under Rule 10.1.3 of the ASX Listing Rules and requires the approval of CountPlus shareholders that are not considered a party to the transaction (i.e. the non-associated shareholders).
- 39 ASX Listing Rule 10.10.2 requires the notice of meeting sent to shareholders to include an IER, stating whether the transaction is “fair and reasonable” to the non-associated shareholders. Accordingly, the Independent Directors of CountPlus that are not associated with the Acquisition have requested that LEA prepare an IER stating whether, in our opinion, the Acquisition is “fair and reasonable” to the non-associated shareholders, together with the reasons for this opinion.
- 40 Our report will accompany the meeting documents sent by CountPlus to its shareholders for the purpose of approving the Acquisition.
- 41 LEA is independent of CountPlus, Count Financial and CBA and has no other involvement or interest in the transaction.

Basis of assessment

- 42 In preparing our report, we have given due consideration to the ASX Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111 and Regulatory Guide 76 – *Related Party Transactions* (RG 76).
- 43 ASX Listing Rule 10.10 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity’s ordinary securities.
- 44 RG 111 states that “fair and reasonable” should not be applied as a composite test and states there should be a separate assessment of “fair” and “reasonable”. RG 111 provides that a proposed related party transaction:
- (a) is “fair” if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the assets being acquired. This comparison is required to be made assuming an arm’s length transaction between knowledgeable and willing, but not anxious parties

¹⁴ ASX Listing Rule 10.2 defines an asset as substantial if its value or the value of the consideration for it is, or in the ASX’s opinion is, 5% or more of the “equity interest” of the entity as set out in the latest accounts given to the ASX under the Listing Rules. ASX provided in-principle advice to CountPlus that ASX Listing Rule 10.1 does apply to the Proposed Transaction as the value of the asset (as distinct from the value of the consideration) being purchased is more than 5% of the equity interests of CountPlus as set out in the latest accounts given to the ASX under the Listing Rules.

¹⁵ CBA is a substantial shareholder in CountPlus for the purposes of ASX Listing Rule 10.1.1 as it has a relevant interest in over 10% of the Company’s total votes.

- (b) is “reasonable” if it is “fair”. A related party transaction may also be “reasonable” despite being “not fair” if the expert believes there are other reasons for non-associated shareholders to vote for the proposal.

45 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the Acquisition is “fair and reasonable” to the non-associated shareholders is to consider:

- (a) the value of the Count Financial business (and related assets) that is proposed to be acquired
- (b) the related consideration to be paid by CountPlus
- (c) the extent to which (a) and (b) differ in order to assess whether the Acquisition is “fair”
- (d) the position of CountPlus before and after the Acquisition, and the net benefits inherent in the transaction
- (e) the advantages and disadvantages of the Acquisition from the perspective of CountPlus shareholders.

46 In our opinion, the Acquisition is reasonable to CountPlus shareholders if the advantages of the Acquisition outweigh the disadvantages from the perspective of CountPlus shareholders.

Limitations and reliance on information

47 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over a relatively short period of time.

48 Our report is also based upon financial and other information provided by CountPlus. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

49 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Acquisition from the perspective of the CountPlus shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecast is beyond the scope of an IER.

50 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Acquisition rather than a comprehensive audit or investigation of detailed matters.

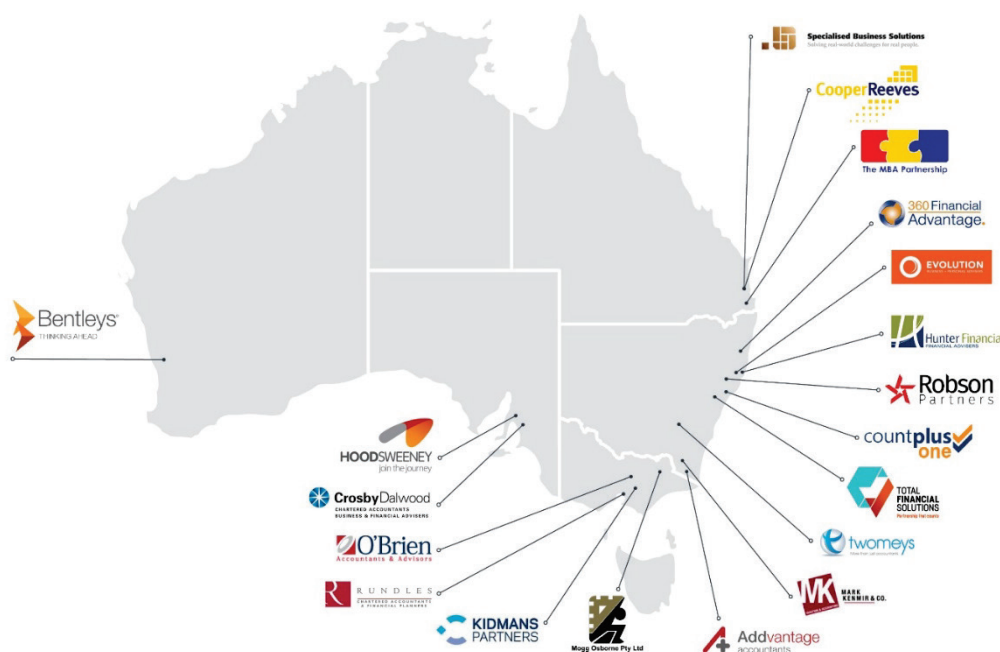
51 In forming our opinion, we have also assumed that the information set out in the Notice of Meeting is complete, accurate and fairly presented in all material respects.

III Profile of CountPlus

Overview

- 52 CountPlus is one of Australia’s leading networks of professional accounting and advice firms. The Company seeks to invest in high-quality and successful accounting and advice firms around Australia through equity partnership, rather than outright ownership, through its unique “owner-driver-partner” model.
- 53 This model allows member firm principals to own and drive their firms without loss of identity, while collaborating with CountPlus as a genuine partner, sharing in a culture of high standards, combined processes, deep resources, and intellectual capital. CountPlus member firms retain autonomy, but benefit from improved funding and economies of scale, which allow them to achieve optimum productivity and quality focus.
- 54 CountPlus listed on the ASX in 2010, and has since grown both organically and by acquisition. As at 31 May 2019 CountPlus had interests in 18 accounting, advice and business advisory firms, a financial planning specialist, and a Financial Planning Licensee. The main member firms are shown below:

CountPlus – member firms



Relationship with Count Financial

- 55 We note that 15 CountPlus member firms already provide financial planning services under the Count Financial banner and its AFSL.
- 56 In addition, CountPlus and Count Financial entered into a “Relationship Deed” in November 2010 (which was amended in 2015), pursuant to which:

- (a) Count Financial was to offer CountPlus “best terms” for existing Count Financial products and services
- (b) CountPlus received fees and commissions based on the level of business referrals from CountPlus member firms. Income of \$1.28 million was received in FY18, and a similar amount is expected to be received in FY19.

57 Should the Acquisition be implemented, the Relationship Deed will effectively become redundant (as CountPlus will acquire Count Financial).

Financial performance

58 A summary of CountPlus’ financial performance in FY17 and FY18, and in the six months ended 31 December 2018 (1HY19), is set out below:

CountPlus – financial performance⁽¹⁾			
	FY17	FY18	1HY19
	\$m	\$m	\$m
Net revenue	82.4	74.4	36.0
Other income	0.7	0.7	0.7
Operating expenses	(76.5)	(68.7)	(32.6)
EBITA⁽²⁾ before profit from associates	6.6	6.4	4.1
Share of profit from associates	0.9	0.8	0.6
EBITA from continuing operations	7.5	7.2	4.7
Net interest	(1.1)	(0.4)	(0.1)
Significant items ⁽³⁾	(3.1)	(2.2)	-
Amortisation ⁽⁴⁾	(2.7)	(2.1)	(0.9)
Profit before tax from continuing operations	0.6	2.6	3.7
Income tax expense	(0.8)	(0.3)	(1.1)
Profit after tax from continuing operations	(0.2)	2.3	2.6
Profit from discontinued operations	1.1	(1.5)	-
Profit attributable to outside equity interests	(1.0)	(1.0)	(0.7)
Profit attributable to CountPlus shareholders	(0.1)	(0.2)	1.9

Note:

- 1 Rounding differences exist.
- 2 Earnings before interest, tax and amortisation of acquired intangibles (EBITA).
- 3 Significant items comprise:

Gain on deferred consideration adjustment	1.1	0.3	-
Gain on disposal of investments and businesses	0.8	2.3	-
Impairment of intangible assets	(5.0)	(4.7)	-
Total significant items	(3.1)	(2.2)	-

- 4 Primarily the amortisation of acquired intangibles (such as acquired client relationships and adviser networks, which are amortised over their expected lifetime).

59 Following a significant decline in the profitability of CountPlus in the six months ended 31 December 2016 (1HY17), and an investigation by ASIC regarding the actions of a financial adviser at Total Financial Solutions, the Board of CountPlus appointed a new CEO (Mr Matthew Rowe) in February 2017 and commenced an extensive strategic review of the business.

- 60 The strategic review concluded that:
- (a) CountPlus should be a partner in high quality professional practices, but not a 100% owner of such businesses (principally because of the misalignment of interests between employees, the firm and shareholders where 100% of the business was owned)
 - (b) some of the firms in the network offered “*little or no capacity for strategic value enhancement*”, and should be divested
 - (c) debt was too high and should be reduced
 - (d) working capital management could be improved.
- 61 By 13 July 2017, CountPlus had sold three member firms (which were loss making) and merged two firms. Further, net debt was reduced from \$25.4 million as at 31 December 2016 to \$11.6 million as at 13 July 2017.
- 62 Further firm divestments took place subsequent to July 2017, and the Company also sold equity stakes in some of its firms to key partners (consistent with the transition to the “owner-driver-partner” model discussed above).
- 63 As indicated by the improved result in 1HY19, the benefits of the strategic review are now starting to be realised.

Financial position

- 64 The financial position of CountPlus as at 31 December 2018 is set out below:

CountPlus – financial position as at 31 December 2018 ⁽¹⁾	
	\$m
Current assets	
Cash and cash equivalents	11.4
Trade and other receivables	10.8
Work in progress	5.1
Total current assets	27.3
Non-current assets	
Loans and other receivables	0.6
Investment in associates	10.6
Deferred tax assets	0.3
Property, plant and equipment	3.8
Intangible assets ⁽²⁾	33.5
Total non-current assets	48.8
Total assets	76.1
Current liabilities	
Trade and other payables	5.2
Interest bearing loans and borrowings	0.3
Provisions	4.6
Other current liabilities	0.8
Total current liabilities	10.9

CountPlus – financial position as at 31 December 2018⁽¹⁾

	\$m
Non-current liabilities	
Other payables	0.1
Interest bearing loans and borrowings	0.9
Provisions	1.0
Other non-current liabilities	0.5
Total non-current liabilities	<u>2.5</u>
Total liabilities	<u>13.5</u>
Net assets	62.6
Less net assets attributable to non-controlling interests	<u>(6.2)</u>
Net assets attributable to CountPlus shareholders	<u><u>56.5</u></u>

Note:

- 1 Rounding differences exist.
- 2 Primarily goodwill and acquired intangibles arising from acquisitions.

- 65 As indicated above, CountPlus was in a net cash position as at 31 December 2018, with cash (net of interest bearing debt) of \$10.2 million.

Share capital

- 66 As at 3 June 2019, CountPlus had 114.2 million fully paid ordinary shares on issue. In addition, the Company has issued 134,693 performance rights to its CEO under its long-term incentive plan. These performance rights were issued in 2017, and vest into fully paid ordinary shares over three years (from their date of issue) subject to the achievement of various service and performance conditions.

Significant shareholders

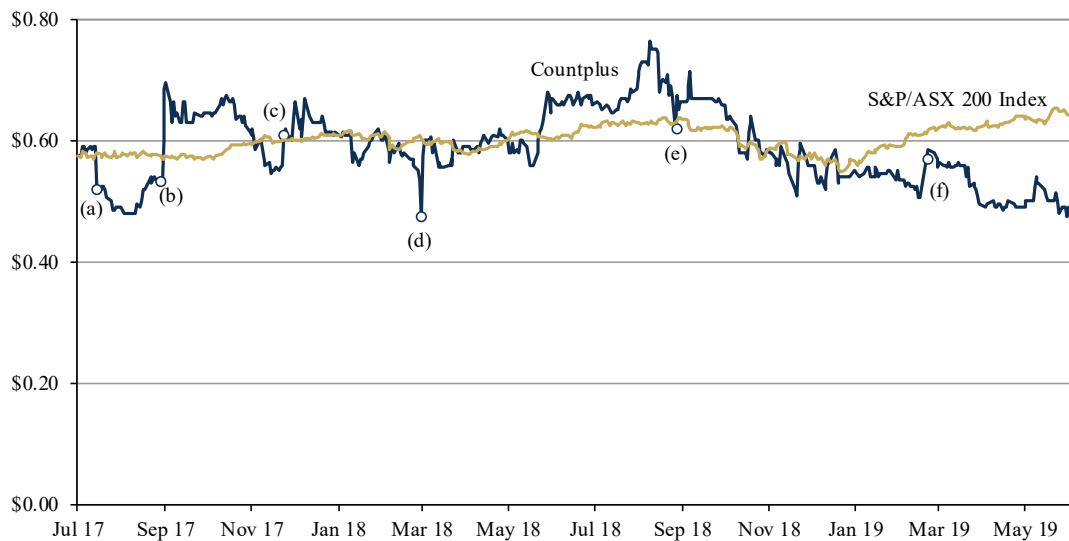
- 67 As at 3 June 2019, CountPlus only had one substantial shareholder, being CBA with 40,945,747 shares¹⁶ (representing a 35.85% interest). Subsequent to completion of the Acquisition, CBA has stated an intention (subject to favourable market conditions) to dispose of its shareholding in CountPlus in an orderly manner.

Share price performance

- 68 The following chart illustrates the movement in the share price of CountPlus from 1 July 2017 to 3 June 2019:

¹⁶ As at 3 June 2019 these shares were actually held in the name of Count Financial (a wholly owned subsidiary of CBA). These shares will be transferred to another CBA entity prior to completion.

CountPlus – share price history from 1 July 2017 to 3 June 2019



Note:

1 The S&P/ASX 200 Index has been rebased to CountPlus' closing price on 1 July 2017, being \$0.575.

69 We note the following with respect to the material movements in the share price of CountPlus shown above:

- (a) **14 July 2017** – the Company released an update on its strategic review, advising that three loss-making member firms had been sold, and two member firms had merged. The Company's debt position as at 13 July 2017 was reported to be \$11.6 million, down from \$25.4 million as at 31 December 2016. The Company also announced a change in dividend policy to move from quarterly to half-yearly dividend payments, in the range of 40% to 70% of maintainable net profit after tax and minority interests, subject to market conditions and company performance. The planned retirement in September 2017 of two long-standing board members, including the company founder Barry Lambert, was also announced
- (b) **28 August 2017** – the Company announced its full-year financial result, being a net profit before tax of \$2.2 million, and an underlying operating profit¹⁷ of \$8.6 million, up 5% on the previous year. The Company also announced that TFSA's¹⁸ professional indemnity insurer had agreed to contribute \$3.25 million towards expected financial detriment that affected clients may have suffered as a result of inappropriate advice, and that the carrying value of TFSA would be written down by \$2.7 million. CountPlus also advised that there would be no dividend payable for 30 June 2017, but that dividends were expected to resume based on the half year 31 December 2017 results. On 30 August 2017 the resignation of the Company's CFO was announced
- (c) **23 November 2017** – at the 2017 annual general meeting (AGM) the CEO announced that the Company had repaid all its borrowings and had cash on hand of almost \$2.0 million

¹⁷ After excluding the effect of the investment in Class Limited and non-cash payments.

¹⁸ CountPlus' subsidiary Total Financial Solutions Australia Limited (TFSA).

- (d) **28 February 2018** – the Company announced a half year loss of \$3.3 million, compared to a profit of \$2.1 million in the previous corresponding period. Underlying profit on a “same firm” basis¹⁹ was reported to be \$4.4 million, up 22% on the previous corresponding period. The carrying value of TFSA was written down by \$3.5 million. It was announced that a dividend would not be declared for the half year due to impairments resulting in a loss after tax
- (e) **27 August 2018** – the Company announced its full-year financial result, being a net profit before tax of \$0.85 million, an underlying operating profit²⁰ of \$7.8 million, and the resumption of dividend payments with a fully-franked dividend of 1 cent per share
- (f) **20 February 2019** – the Company announced a half year profit after tax of \$2.6 million, compared to a loss of \$3.3 million in the previous corresponding period, and declared a fully-franked dividend of 1 cent per share for the half year. The average EBITA margin for member firms rose to 18%, compared to 15% in the previous corresponding period. The Company announced its aim to improve EBITA margins at member firms to 25% in the medium term.

Liquidity in CountPlus shares

70 The liquidity in CountPlus shares based on trading over the last 12 months is set out below:

CountPlus – liquidity in shares						
Period	Start date	End date	No. of shares traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annualised %
1 month	4 May 19	3 Jun 19	919	114,223	0.8	9.7
3 months	4 Mar 19	3 Jun 19	3,252	114,223	2.8	11.4
6 months	4 Dec 18	3 Jun 19	4,876	114,223	4.3	8.5
1 year	4 Jun 18	3 Jun 19	15,277	114,223	13.4	13.4

Note:

- 1 Weighted average number of shares outstanding (WANOS) during the relevant period.
- 2 Number of shares traded during the period divided by WANOS.

71 In each of the periods shown, total share turnover on an annualised basis was less than 15% of the issued shares in CountPlus, indicating a low level of market liquidity. This reflects, in part, the large shareholding held by CBA (35.85%).

¹⁹ After removing impairments, revaluation of investments, gains on sale of investments, gains on deferred consideration, non-recurring restructuring costs and all the business units that were sold.

²⁰ Adjusted for one-off, non-recurring items.

IV Recent developments in the financial planning sector

Current performance in the industry

- 72 The performance of the Financial Planning and Investment Advice industry over the past five years has been affected by a changing regulatory environment including:
- (a) the Future of Financial Advice (FOFA) legislation²¹, implemented on 1 July 2013
 - (b) the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission), established on 14 December 2017, which further tightened regulations affecting industry operators following the issue of the final report of findings and recommendations in February 2019.
- 73 As a direct result of the abovementioned tighter regulatory regime:
- “... industry revenue is expected to fall at an annualised 3.2% over the five years through 2018-19, to \$4.8 billion. Revenue is expected to decline by 0.2% in the current year as industry players adapt to new fee models ...”²²*
- 74 The regulatory uncertainty and increased stringency has seen many advisers exit the industry, whilst total wage payments have increased over the past five years in response to the intensified competition which has caused industry players to bid to retain their best performing advisers and their respective client portfolios.
- 75 A migration has begun for quality financial advisers to move away from major institutions towards smaller independent businesses, including accounting firms (with the latter well placed to thrive in the financial advisory industry due to the inherent professionalism of accounting firms underpinned by higher educational, professional and ethical standards).
- 76 In light of the findings from the Royal Commission and tighter reforms and the consequent ongoing focus of the provision of advice that is in the client’s best interest and free from conflicts, it is anticipated that the separation of wealth management products and financial advisory services will continue. The four major banks have already sought to offload their wealth management / financial advisory services businesses as detailed below:
- (a) ANZ Banking Group (ANZ) announced the sale of its OnePath pensions and investments and aligned dealer groups business (being ANZ’s wealth management arm) to IOOF Holdings Limited in October 2017 for \$975 million, the sale being consistent with ANZ’s strategy *“to create a simpler, better balanced bank focussed on retail and business banking in Australia and New Zealand, and Institutional Banking supporting client trade and capital flows across the region”* ²³.

²¹ Based on the recommendations of the 2009 Parliamentary Joint Committee inquiry into the Financial Planning and Investment Advice industry after financial planning clients lost significant amounts of money as a result of unsuitable and high-cost investment advice from firms.

²² Source: IBISWorld April 2019 report entitled *“Financial Planning and Investment Advice in Australia”* (the IBISWorld Report), page 5.

²³ Source: ASX announcement by ANZ dated 17 October 2017.

Whilst the sale of the aligned dealer groups business was completed on 2 October 2018, the sale of the OnePath pensions and investments business has not yet completed (as it remains subject to a number of conditions precedent)

- (b) CBA announced in June 2018 its intention to demerge its wealth management and mortgage broking businesses enabling CBA *“to enhance its focus on its core banking businesses in Australia and New Zealand and create a simpler, better bank ... It also responds to continuing shifts in the external environment and community expectations, and addresses the concerns regarding banks owning wealth management businesses”*.

It is proposed that the demerged business, CFS Group, would include CBA’s Colonial First State, Colonial First State Global Asset Management (CFSGAM)²⁴, Count Financial, Financial Wisdom and Aussie Home Loans businesses^{25 26}. On 14 March 2019, CBA announced that it has suspended preparations for the demerger in order to focus its priorities on the implementation of the recommendations from the Royal Commission²⁷

- (c) National Australia Bank’s (NAB) investor presentation dated 3 May 2018 stated its intention to pursue a divestment of MLC, which includes Advice, Platform & Superannuation and Asset Management businesses, *“consistent with our plan to become simpler, faster and focused on core banking”*²⁸. As at the date of this report, NAB’s most recent divestment update in May 2019 stated the following²⁹:

- *Separation progressing well*
- *Current regulatory and operating environment remains challenging*
- *Intended public markets exit of MLC delayed to FY20, with NAB retaining flexibility to consider all forms of exit*
- *Proposed exit subject to market conditions, regulatory and other approvals*
- *1H19 cash earnings of \$78m [based on earnings from businesses expected to be divested] ...”*

- (d) Westpac Banking Group (WBC) was *“expecting to cut 900 full-time jobs as it quits its loss-making financial advice business and restructures its wealth and insurance arms”*³⁰ when it announced on 19 March 2019 that it is³¹:

²⁴ CFSGAM was sold to Japan’s Mitsubishi UFJ Trust and Banking Corporation for \$4.13 billion, 17.5 times CFSGAM’s pro forma FY18 net profit after tax. (Source: CBA’s ASX announcement dated 31 October 2018.)

²⁵ Noting that CBA’s salaried financial advice business, Commonwealth Financial Planning, will be retained by CBA. (Source: ASX announcement by CBA dated 25 June 2018.)

²⁶ Source: ASX announcement by CBA dated 25 June 2018.

²⁷ Source: ASX announcement by CBA dated 14 March 2019.

²⁸ Source: NAB 2018 Half Year Results Summary released 3 May 2018.

²⁹ Source: NAB investor presentation dated 2 May 2019.

³⁰ Source: article entitled *“Westpac expects to slash 900 jobs as it quits financial advice”* dated 19 March 2019, www.abc.net.au/news.

³¹ Source: ASX release by WBC dated 19 March 2019.

- (i) realigning its major BT Financial Group businesses into the Consumer and Business divisions
- (ii) exiting the provision of personal financial advice by WBC salaried financial advisers and authorised representatives, stated to be a high cost, loss-making business and reflecting *“the changing external environment, including a trend by financial advisers to operate independently, or in smaller advisory groups”*
- (iii) instead moving to a referral model for financial advice by utilising a panel of advisers or adviser firms
- (iv) entering a sale agreement as part of the exit with Viridian Advisory Pty Ltd³² (Viridian) involving many BT Financial Advice ongoing advice customers being offered an opportunity to transfer to Viridian, and a number of WBC’s salaried financial advisers and support staff transitioning to Viridian from the anticipated completion date of 30 June 2019. Proceeds from the sale are dependent upon the size of the business that transitions to Viridian.

One-off impacts from the transaction and implementation were initially estimated to be some \$250 million to \$300 million. WBC stated that the changes announced *“are about focusing our investment where we have genuine competitive advantage and growth opportunities ... simplifying the Group’s structure ... while responding to the changing external environment”*.

- 77 Currently, the biggest four financial institutions have almost 3,950 advisers. Over time, this number could diminish as independent converged accounting and advice firms become more active players in the financial advice industry, coupled with a growing number of independent financial advisers operating in a more transparent and heavily regulated industry.

FOFA reforms

- 78 The primary aim of the FOFA reforms (implemented in July 2013) was to improve consumer confidence in the industry by removing conflicts of interest and putting the client’s interests ahead of the adviser’s. The essential elements of the FOFA reforms included:

- (a) the abolishment of volume-based commission payments
- (b) the introduction of a mandatory opt-in policy addressing concerns about trailing commissions
- (c) the introduction of a “client best interest” duty for advisers.

- 79 At the time of the proposed FOFA legislation, the industry began to move away from commission and certain asset-based remuneration, opting instead for fee-for-service models as early as mid-2010. The fee-for-service model could be constructed on a fixed or hourly rate per session, or a value placed on the provision of a statement of advice. In any event, the fee-for-service model would enhance separation of product and advice and would therefore be likely to enhance trust in the industry given its transparency and its detachment from the conflicts of interest associated with product sales entwined with advice that vertically

³² Viridian Advisory is a self-licensed national advice business offering wealth and retirement planning, investment management and other solutions. (Source: ASX release by WBC dated 19 March 2019.)

integrated firms offered in the past. The fee-for-service model does not depend on which fund manager or platform is selected or the quantum a client chooses to invest and instead clients are simply and fairly charged for the service they receive³³.

- 80 However, the FOFA reforms created significant costs and cost uncertainty amongst industry participants over the last five years which has led to the loss of clients, loss of revenue streams, loss of industry participants, instability of industry employment and overall pressures on the profitability of boutique advisers.

The Royal Commission

- 81 The February 2019 release of the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry highlighted the widespread breaches of conduct throughout the industry and included 76 recommendations, nine of which impacted the financial advice industry directly. Several major industry players were found to have provided inappropriate and substandard financial advice that has subsequently led to a decline in consumer confidence in industry services over the past five years. Instances of the conduct breaches involved:
- (a) providing inappropriate financial advice to clients due to poor risk analyses
 - (b) forging client signatures
 - (c) doctoring compliance documents
 - (d) charging fees to clients without the provision of a service
 - (e) poor outcomes for clients resulting from financial incentives offered for the promotion of in-house products within vertically integrated banks and firms.
- 82 In late November 2018, AMP Limited (AMP) informed the Royal Commission that remediation efforts would cost the company an estimated \$778.0 million³⁴. Furthermore, ASIC is seeking civil penalties against AMP, requesting a compliance plan order be put in place by AMP after its admission of wrongdoing in not providing clients with appropriate advice and not acting in the best interests of clients. In particular, AMP's financial planners are alleged to have advised clients of the need to cancel existing policies for life, income protection, trauma and total and permanent disability insurance only to allegedly have been sold replacement AMP policies rather than transferring existing policies, which consequently would have generated additional unnecessary fees for the financial planners³⁵.
- 83 ANZ announced in its half year ended 31 March 2019 presentation that the financial impact of customer remediation in light of the Royal Commission was \$928 million pre-tax since the first half of the 2017 financial year. In addition, subsequent to the release of the final report of the Royal Commission, ANZ has published details of a commitment to 16 initiatives being

³³ To date, financial advice fees have typically been based upon the quantum invested by the client which is set to change.

³⁴ Source: IBISWorld Report, page 7.

³⁵ Source: article entitled "*AMP Financial Planning admits it failed to act in client's best interest*" dated 21 May 2019, www.abc.net.au/news.

implemented to improve the treatment of retail customers, small business and farmers in Australia as well as publicly reporting on the remediation of existing failures³⁶.

- 84 For the quarter ended 31 March 2019, CBA announced that the cumulative remediation and program costs of the company amount to \$2.174 billion, composed as follows:

CBA remediation and program costs	
	Total to date \$m
Aligned advice ⁽¹⁾ remediation	534
Wealth customer refunds	459
Banking customer refunds	375
Other program costs ⁽²⁾	806
Total	<u>2,174</u>

Note:

- 1 Aligned Advisers are advisers who are not employed by the CBA Group but who are authorised to provide financial advice under the Financial Wisdom, Count Financial or CFP Pathways licenses.
- 2 Other program costs includes regulatory costs including the implementation of the Royal Commission recommendations.

Source: CBA supporting material for the quarter ended 31 March 2019.

- 85 NAB announced that their total provisions for customer-related remediation as at 31 March 2019 amounted to \$1.1 billion, further stating³⁷:

“There are currently around 350 people dedicated to remediating customers and we will soon have around 500 across NAB as we bring greater focus and discipline to resolving issues and making sure they do not happen again ...

Of the 1H19 charges, approximately 91% are for Wealth related matters, with the remainder for Banking.”

- 86 The final report of the Royal Commission recommended (inter alia):
- (a) the formation of an independent statutory body to oversee financial advisers, each of which will require registration with the body
 - (b) the elimination of trailing commissions and commissions for life insurance
 - (c) the banishment on conflicted remuneration exemptions
 - (d) the quarterly reporting requirement by banks to ASIC of serious compliance concerns regarding individual financial advisers.

³⁶ Source: ANZ half year ended 31 March 2019 results presentation and investor discussion pack dated 1 May 2019, pages 19 and 104.

³⁷ Source: ASX Announcement by NAB dated 18 April 2019.

- 87 Whilst the FOFA laws banned upfront and trailing commissions, a concession by the then Labor Government allowed pre-2013 arrangements to continue on the basis that they were “grandfathered”. This was regarded as necessary at the time as (in part) legislators could not extinguish existing contractual rights without compensating those impacted by such a change³⁸. The final report of the Royal Commission recommended repealing these grandfathering provisions as soon as practicable. The proposed changes state that the benefits of previously grandfathered conflicted remuneration remaining in contracts subsequent to 1 January 2021 will be rebated to affected retail customers or passed on in the form of a monetary benefit (such as a fee reduction)³⁹.
- 88 In October 2018, CBA announced “*further actions to improve outcomes for wealth management customers including the rebating of grandfathered commissions for Commonwealth Financial Planning (CFP) customers, and a review and remediation program for any instances where unauthorised advice fees have been charged to deceased estates*”⁴⁰.
- 89 However, the Royal Commission findings were but one catalyst for change within the banking, superannuation and financial services industry. Other triggers for change included the following:
- (a) higher education and professional standards for financial advisers
 - (b) increased regulation of financial advisers and the advice sector
 - (c) consumer expectations of improved transparency
 - (d) the realignment of commercial interests as financial institutions continue to sell off their wealth management businesses.
- 90 The removal of conflicted remuneration structures will be essential in restoring public trust in the industry. Furthermore, the adoption by financial advisers of the modes of behaviour and conduct akin with the established norms in the accounting profession is likely. It follows that accounting firms in the provision of financial advice will likely flourish as consumers look to independent, trusted, highly educated financial advisers free from conflicting interests and meeting the now required professional and educational standards.
- 91 Whilst larger financial institutions have been increasing their market share via acquisitions and integration of financial advisers, product providers, investment platforms and investment managers, the FOFA fiduciary duty requirements (aimed at improving the quality of financial advice offered by preventing conflicts of interest) are increasing pressure as advisers may now be required to search beyond their standard product lists (which had typically included the products of aligned product providers).

³⁸ Source: WBC media release dated 20 June 2018 entitled “*BT Financial Advice announces removal of grandfathered payments*”.

³⁹ Source: article entitled “*Huge loophole in law to ban commissions*” dated 29 April 2019, The Australian Financial Review.

⁴⁰ Source: ASX announcement by CBA dated 9 October 2018.

- 92 It is clearly evident from the findings of the Royal Commission that the vertically-integrated business model of the past, which allowed for the cross-subsidisation of advice from product and platform, allowed conflicts of interest that will no longer be tolerated in the reformed industry, with reforms aimed to achieve a better alignment of clients' interests with those of the financial advice provider.

Higher industry standards

- 93 To maintain a consistent level of quality and reliability of the industry's services, the Federal Government proposed new legislation to increase the ethical, educational and professional standards in the industry. This professional standards regime is overseen by an independent statutory body, being the Financial Adviser Standards and Ethics Authority (FASEA) which was established in April 2017 to set the education, training and ethical standards of licensed financial advisers in Australia⁴¹.
- 94 From 1 January 2019, FASEA now requires financial advisers to adhere to the following⁴²:
- (a) to become a qualified financial adviser, new entrants must now hold an FASEA-approved degree before commencement of the Work and Training (Professional Year) requirement
 - (b) existing financial advisers will have until 1 January 2021 to pass a mandatory industry exam and until 1 January 2024 to complete a relevant tertiary degree or equivalent
 - (c) an annual requirement for 40 hours of continuous professional development
 - (d) financial advisers are to adhere to the Code of Ethics which will commence on 1 January 2020.
- 95 Furthermore, there is now a requirement for advisers to register with the Tax Practitioners Board as tax (financial) advisers.
- 96 Due to the introduction of the professional standards regime and the findings of the Royal Commission, it is forecast that wages will increase as a share of industry revenue over the next five years and industry employment will decline as tighter regulations will see the exit of many small operators in the industry.

Industry outlook

- 97 Over the coming five years, it is anticipated that further / tighter regulatory reforms and refinements will affect the financial planning and investment advice industry and its operators. Consequently, many smaller firms are expected to exit the industry in addition to the projected continued consolidation of industry participants.
- 98 However, the cost of the forecast fall in industry enterprise numbers is expected to be more than outweighed in the long term by the benefit of greater pricing transparency and a more ethical operational and remuneration framework which will likely reinvigorate investor

⁴¹ Source: www.fasea.gov.au.

⁴² Source: www.fasea.gov.au.

confidence and demand for financial advice over the coming five years. Specifically, industry revenue is forecast to grow at an annualised 1% over the next five years to some \$5 billion⁴³.

- 99 During the upcoming five years, a move to user-pay pricing models away from product distribution subsidisation is anticipated to become a more important basis of competition amongst the advice industry. In some business models profitability is forecast to decline as a result of lower product margins aimed at locking in clients and market share, banning of grandfathered commissions, increased compliance costs coupled with adviser training and education requirements.

⁴³ Source: IBISWorld Report, page 7.

V Valuation of Count Financial

Overview

- 100 Count Financial provides licensing and other services to one of Australia's largest networks of accountant led financial planning firms. As at 30 April 2019 this network comprised 160 firms and 359 financial advisers (who are predominately accountants).
- 101 Count Financial provides these advisers with the necessary licensing, software, training and support to provide their clients with advice in wealth management, wealth protection (e.g. insurance) and lending. As at 31 March 2019, Count Financial had \$8.1 billion in funds under administration (FUA).
- 102 Count Financial was listed on the ASX in December 2000, and was acquired by CBA in late 2011 for approximately \$373 million.

Financial performance

- 103 Count Financial incurred an operating loss of approximately \$6.1 million⁴⁴ (before tax) in FY18 under CBA ownership, and is expected to incur a further operating loss in FY19.
- 104 We have not set out these historical results in detail as they do not reflect the earnings potential of the Count Financial business under CountPlus ownership. In this regard we note that:
- (a) Count Financial's member (firm) fees and adviser fees are currently well below those charged by most competitors (who have begun the transition to a "fee for service" pricing model)
 - (b) the large majority of Count Financial's revenue has been generated from trailing commissions and rebates which will be prohibited from 1 January 2021
 - (c) Count Financial's historical financial results include significant overhead recharges from CBA (which will not be incurred under CountPlus ownership)
 - (d) the number of full time equivalent (FTE) employees at Count Financial is expected to be less under CountPlus ownership for the reasons set out in paragraph 138
 - (e) the number of firms and advisers which are part of the Count Financial network has declined significantly over recent years, as shown below:

Count Financial – member firms and financial advisers		
	Member firms	Financial advisers
30 June 2017	292	587
30 June 2018	199	428
30 April 2019	160	359

⁴⁴ Excluding a gain of \$46.3 million on the disposal of a controlled entity.

Revenue streams

- 105 As stated above, Count Financial has historically:
- (a) charged relatively low fees to member firms / financial advisers for the provision of services; and
 - (b) received large trailing commissions and rebates (typically based on the level of FUA), which is ultimately paid by customers / investors.
- 106 In the nine months to 31 March 2019 member and adviser fees⁴⁵ totalled approximately \$3.7 million, and income from trailing commissions and rebates (Legacy Revenue) was approximately \$12.0 million.
- 107 From 1 January 2021, the Legacy Revenue will be banned, which will have a significant adverse impact on Count Financial's profitability.
- 108 To address this looming revenue shortfall, industry participants such as Centrepont Alliance Limited (Centrepont) have recently introduced new "fee for service" pricing structures to more appropriately reflect the costs of providing member firms and advisers with the licensing and support services required. This has resulted in an increase in the member and adviser fees charged by participants to member firms.

Pro-forma balance sheet

- 109 We set out below the pro-forma balance sheet of Count Financial as at 31 March 2019:

Count Financial - Pro-forma balance sheet on completion				
	Net cash \$000	Insurance product commissions \$000	CBA indemnity \$000	Total \$000
Cash	14.28	-	-	14.28
Receivables	6.89	25.44	-	32.33
Indemnity from CBA	-	-	144.00 ⁽¹⁾	144.00
Payables	(9.22)	(21.37)	-	(30.59)
Provision for remediation claims	-	-	(144.00) ⁽²⁾	(144.00)
Deferred tax liability	-	(1.22)	-	(1.22)
Net assets	11.95	2.85	-	14.80

Note:

- 1 This asset reflects the benefit of the indemnity from CBA (as discussed in paragraphs 111 to 118 below).
- 2 The provision for remediation claims reflects CBA's provision as at 31 March 2019 for the expected customer refunds arising from the misconduct of Count Financial and its authorised representatives which occurred prior to the completion date of the Acquisition (as discussed in paragraphs 111 to 118 below).

⁴⁵ Including continuing insurance commissions.

- 110 Consistent with the terms of the Acquisition described in Section I, we note that:
- (a) the business will be sold on a debt free basis (i.e. free from external indebtedness) with a normalised level of working capital
 - (b) net cash of \$11.95 million⁴⁶ will be retained within Count Financial on completion to ensure the business is well capitalised
 - (c) the NTA of Count Financial are expected to be around \$14.8 million on completion.

Indemnity for remediation costs

- 111 CBA has committed to remediating Count Financial customers for losses arising from the misconduct of Count Financial and its authorised representatives which occurred prior to the completion date of the Acquisition. To give effect to this commitment, CBA has agreed to provide an indemnity in favour of CountPlus for these remediation claims in an Indemnity Deed. In order to comply with CBA's prudential obligations the indemnity must be subject to a monetary cap, which has been set at \$200 million.
- 112 In contrast, the remediation provision recognised by CBA as at 31 March 2019 for customer refunds (including interest) arising from the misconduct of Count Financial and its authorised representatives is \$144.0 million. This provision excludes program costs (which represent the administration costs associated with investigating and managing claims), which are not covered by the Indemnity Deed as the liability for these costs remains with CBA (regardless of the amount of such costs). Consequently, customer refunds (including interest) arising from the misconduct of Count Financial and its authorised representatives must reach \$200 million before the indemnity cap is reached.
- 113 CBA's provision for customer refunds in relation to ongoing service / fees for no service of approximately \$140.0 million⁴⁷ as at 31 March 2019 assumes a refund rate of 24% (excluding interest) of the ongoing service fees collected by Count Financial (in total) from FY09. That is, it assumes that 24% of the ongoing service fees generated by Count Financial from FY09 (in total) will be refunded (which CountPlus management consider, based on their own enquiries and customer base, is conservative).
- 114 The indemnity cap of \$200 million therefore reflects approximately \$56 million (38.9%) more than the current provision for customer refunds, and is expected by CountPlus and CBA to be sufficient to ensure that CountPlus does not incur any liability for remediation liabilities arising from misconduct which occurred prior to the completion date of the Acquisition. CountPlus, in conjunction with its external accounting advisers, has also undertaken detailed due diligence on the provision and considers that the indemnity is sufficient.
- 115 However, while not presently expected, it is possible that:
- (a) actual costs in respect of presently known issues could exceed the indemnity cap of \$200 million

⁴⁶ Net of payables as set out in paragraph 109.

⁴⁷ Which comprises the large majority of the CBA provision.

- (b) currently unknown issues may arise that have a cost implication (which could also increase the total remediation costs above the indemnity cap).
- 116 To address this possibility, the Indemnity Deed states that the parties will meet to discuss in good faith potential changes to the monetary cap if:
- (a) a review of the refund rates for ongoing service matters, which will be undertaken at an agreed time, is materially greater or less than the rate of 24%; or
 - (b) the aggregate amounts paid in relation to certain categories of inappropriate advice given by Count Financial advisers prior to completion exceeds \$12.5 million.
- 117 However, it should be noted that CBA is not legally bound to increase the cap.
- 118 Whilst there is therefore some possibility that CountPlus could incur a liability associated with the above remediation liabilities, this is not expected to be the case because:
- (a) the current indemnity cap is some 38.9% above CBA's provision for expected customer refunds as at 31 March 2019
 - (b) CountPlus management expect that CBA will act in good faith and agree to any appropriate increase in the cap in the unlikely event that this is required (consistent with the basis upon which the parties have negotiated the Acquisition and related Indemnity Deed); and
 - (c) Count Financial is a separate legal entity (which will not be guaranteed by CountPlus), and accordingly it will be possible to quarantine losses within Count Financial to minimise any impact on the value of CountPlus in the unlikely event that the remediation liabilities significantly exceed \$200 million and CBA refuses to increase the indemnity cap.

Cash flow projections

- 119 We have been provided with CountPlus management's revenue and operating cost projections for the Count Financial business under its ownership (which we have reviewed in detail). These cash flow projections were formulated following extensive due diligence on the Count Financial business by CountPlus' accounting advisers.
- 120 LEA has (inter alia) considered the appropriateness of the key assumptions adopted by management, which we have adjusted where appropriate. We have then considered the discounted cash flow (DCF) value of the business under a number of scenarios.
- 121 However, in respect of the projections it should be noted that:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
 - (b) future profits and cash flows are inherently uncertain
 - (c) the achievability of these projections is not warranted or guaranteed by CountPlus or LEA, as they are predictions of future events that cannot be assured and are necessarily

based on assumptions, many of which are beyond the control of CountPlus and its management; and

- (d) actual results may be significantly more or less favourable.

- 122 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections (which have been adopted for the purposes of our Base Case DCF valuation).

Revenue assumptions

- 123 The key revenue assumptions adopted in our Base Case DCF valuation are summarised below.

Number of firms and advisers

- 124 Whilst Count Financial had 160 affiliated firms as at 30 April 2019, for valuation purposes we have assumed that:
- (a) the number of firms will reduce to 150 (on average) during FY20. This allows for some churn during the year, notwithstanding the retention strategies to be implemented by CountPlus (which include the acquisition of a 15% interest in Count Financial by the Count Member Firm Special Purpose Vehicle, which will make distributions to qualifying beneficiaries (being Count Financial member firms who meet certain client service and compliance benchmarks))
 - (b) from 1 July 2020 the number of affiliated firms is assumed to reduce to 122⁴⁸, being those firms with current gross revenues exceeding \$100,000 per annum. This revenue limit has been adopted as it is less likely that firms generating less than \$100,000 in gross revenue will have the financial capacity to pay the higher fees proposed under the new “fee for service” pricing structure (which CountPlus intend to introduce within 12 months from completion). The increased education and training requirements outlined in paragraphs 93 to 96 are also likely to reduce adviser / firm numbers from those currently affiliated with Count Financial (and the industry generally).

FY20 fee revenue (excluding Legacy Revenue)

- 125 It is assumed that Count Financial’s existing member fee structures will remain in place during FY20. As a result, fee revenue (excluding Legacy Revenue and cost recharges) is expected to average approximately \$26,000 per firm and totals approximately \$3.9 million⁴⁹.
- 126 Average revenue of \$26,000 per firm is broadly consistent with the actual (annualised) revenue achieved in the 9 months to 31 March 2019.

⁴⁸ The 122 firms had 305 advisers as at 30 April 2019 (whereas Count Financial had 359 as at that date).

⁴⁹ Being \$26,000 per firm multiplied by 150 firms.

Legacy Revenue

- 127 Legacy Revenue of \$9.9 million is projected to be received in the 12 months to 30 June 2020. This revenue is calculated as a percentage of FUA, consistent with the terms of existing arrangements.
- 128 Whilst Legacy Revenue will only be prohibited from 1 January 2021, our DCF calculations assume that Legacy Revenues are phased out after 12 months. That is, we have assumed that no Legacy Revenues will be received from 30 June 2020⁵⁰.

Fee revenue post FY20 (per annum)

- 129 Count Financial is expected to transition to a new “fee for service” pricing model by 1 July 2020. Based on this proposed pricing structure⁵¹, annual revenue⁵² is projected to increase to approximately \$10.0 million from FY21 (based on 122 firms and 305 advisers).
- 130 In order to assess the appropriateness of this Base Case revenue assumption, we have considered the pricing structures of competitors. Management consider that the most comparable businesses to Count Financial are Centrepont⁵³ (an ASX listed entity), Synchron and Viridian, as they are large independent (non-bank aligned) financial planning groups which are transitioning to a “fee for service” model⁵⁴. Specifically, we have applied each competitors pricing (where known) across each Count Financial member firm to ascertain the extent to which the total revenue under competitors pricing varies from our Base Case revenues.
- 131 This analysis indicated that the total Base Case revenue under CountPlus’ proposed pricing model of approximately \$10.0 million was broadly consistent with the total revenues expected to be generated if competitors pricing was applied.
- 132 The significant increase in average revenue per firm (from \$26,000 in FY20 to approximately \$82,000 thereafter) reflects the need for industry participants to recover the costs of providing licensing and other services to advisers (which have previously been subsidised by Legacy Revenue streams).
- 133 Notwithstanding the increase in fee revenue per firm from FY21, we note that Count Financial’s average total revenue per firm from FY21 is projected to be significantly lower than the levels achieved historically including Legacy Revenue.
- 134 However, it should be noted that the acceptance by financial planning firms and advisers of the proposed new fee structures (both by Count Financial and other industry participants) is inherently uncertain as the industry is only now transitioning to these new pricing structures.

⁵⁰ It should be noted that Legacy Revenue is unlikely to be received once the new pricing model is implemented.

⁵¹ Further details on the proposed pricing structure cannot be disclosed as it is commercially sensitive.

⁵² Excluding recharges for professional indemnity costs, software licenses, ASIC levies and adviser vetting fees.

⁵³ On 25 June 2019 we note that Centrepont announced that 88% of adviser firms had agreed to their transparent “fee-for-service” pricing model.

⁵⁴ Vertically integrated competitors which also generate revenue from product distribution (such as NAB / MLC and AMP) were excluded from this analysis.

- 135 Our DCF valuation has therefore considered the sensitivity of our valuation range to changes in these pricing assumptions. Specifically, as set out in paragraph 147 below, we have considered the impact on value if projected revenues are up to 30% lower than the Base Case assumptions.

Other revenue

- 136 Count Financial generates other revenue from member firms and advisers, including adviser vetting fees, ASIC levies, software charges and professional indemnity charges (which are negotiated as a group and recharged to advisers). These costs are either recharged at cost or at a small margin.

Operating costs assumptions

Employee costs

- 137 Employee costs comprise the large majority of operating expenses⁵⁵, and have been estimated by CountPlus management at approximately \$7.2 million per annum. These include allowances for on-costs (such as payroll tax and bonuses), and reflect the cost of 43 FTE employees⁵⁶.
- 138 In comparison, we understand that under CBA ownership the business had 65 FTE employees. In this regard we note that CBA employed a much greater number of people in risk, remediation and compliance functions, which we presume reflects the recent focus of government and regulators on the financial planning sector. CountPlus management consider that this higher number of employees is unnecessary on an ongoing basis, and believe they can reduce the headcount to 43 FTE because:
- (a) CountPlus will introduce a new organisation structure, which will redefine roles and reduce inefficiencies (noting that much of the existing structure is in shared services functions which CountPlus management believe can be streamlined)
 - (b) the cost of remediation programs to compensate clients adversely affected by certain conduct of the Count Financial business prior to the Acquisition will be met by CBA (up to a maximum of \$200 million⁵⁷)
 - (c) CountPlus intends to outsource an extensive audit program of Count Financial's advisers in the first three months after completion
 - (d) CountPlus intends to introduce a regulatory technical solution to enable it to have real time data audits on advisers within six months from completion
 - (e) CountPlus will build out a new fit for purpose supervision and monitoring framework for Count Financial member firms within six months of completion, the cost of which will be borne by CBA as part of the Indemnity Deed.

⁵⁵ Ignoring professional indemnity, ASIC levies, adviser software costs and adviser vetting costs which are passed through to member firms.

⁵⁶ The average cost per employee is approximately \$168,000.

⁵⁷ Refer paragraphs 111 to 118 for further information.

Other expenses

- 139 Other expenses (excluding professional indemnity, ASIC levies, adviser software costs and adviser vetting costs which are passed through to member firms) total approximately \$2.2 million per annum. These comprise rent costs (\$0.5 million), and other expenses such as software and IT costs, marketing, market research, professional fees, depreciation⁵⁸ and general overheads.

Transition costs

- 140 Our DCF valuation allows for \$2.0 million in costs associated with the transition of the business to CountPlus. Further significant investment in working capital is not considered likely in the absence of any growth in the number of member firms (which is not assumed), as the business is being acquired on the basis that it will have normal working capital balances on completion. Any deviation from the agreed working capital balances on completion will be an adjustment to the purchase price.

Discount rate

- 141 We have applied a discount rate of 15% per annum to derive the net present value (NPV) of the free cash flows of the Count Financial business. Whilst this is a high discount rate, it reflects the inherent uncertainty associated with (in particular) the future revenue of the business (as industry participants transition to “fee for services” pricing structures, which may or may not be accepted by member firms and advisers).
- 142 The sensitivity of our assessed value to changes in the discount rate is set out in paragraph 147 below.

Terminal value

- 143 Our cash flow projections cover the five year period to 30 June 2024. At that date a terminal value (TV) has been adopted, equal to the free cash flow projected in FY24 divided by 15% (being the adopted discount rate⁵⁹). Our TV implies an earnings before interest and tax (EBIT) multiple of 4.7 times the projected EBIT in FY24.

Closure scenario

- 144 As noted above we have considered a range of revenue / pricing scenarios for the Count Financial business under CountPlus ownership. In some of those scenarios (e.g. where revenue is not accepted by member firms / advisers and fee charges are reduced) the revenue does not exceed operating costs.
- 145 In such scenarios we have also considered (in conjunction with CountPlus management) the costs likely to be incurred to close down the business. Preliminary estimates are that such costs (including redundancies) would amount to around \$3.0 million⁶⁰.

⁵⁸ The allowance for depreciation is assumed to be a proxy for capital expenditure.

⁵⁹ For valuation purposes, no growth in earnings has been assumed (which is conservative as CountPlus management believe that there is scope to increase the number of member firms over time).

⁶⁰ When valuing Count Financial we have not incorporated the value of tax benefits on closure costs and losses on the basis that, in such circumstances, Count Financial will not have future taxable income (as a standalone entity) to utilise the tax benefits. Our valuation therefore excludes any tax benefit potentially available to CountPlus from being able to offset such losses against its own taxable income.

DCF values

- 146 As stated above, the acceptance by financial planning firms and advisers of the proposed new fee structures (both by Count Financial and other industry participants) is inherently uncertain as the industry is only now transitioning to these new pricing structures.
- 147 Our DCF valuation of the Count Financial business has therefore considered the sensitivity of our valuation range to changes in these pricing assumptions, as shown below:

Sensitivity table – value of Count Financial under CountPlus ownership						
Discount rate		Fee revenue from FY21 compared to Base Case				
		-30%	-20%	-10%	-	+10%
	16%	8.7	10.3	15.1	19.3	23.5
	15%	8.7	10.2	15.2	19.7	24.2
	14%	8.6	10.2	15.4	20.2	25.0

- 148 The above values include the benefit of the \$11.95 million in net cash which will be acquired pursuant to the Acquisition to assist CountPlus fund transition costs and to meet the working capital requirements of the business. The above values which are less than \$11.95 million arise because in those scenarios the business is unprofitable and is assumed to be closed down.
- 149 Having regard to the above, for the purpose of our assessment of the Acquisition, we have assessed the DCF value of the Business acquired (assuming an effective acquisition date of 1 October 2019) at between \$9.0 million and \$20.0 million.

Cross-check to NTA

- 150 In our opinion this valuation range is reasonable and appropriate given that the NTA of the business being acquired on completion will be \$14.8 million.

VI Evaluation of the Acquisition

151 In our opinion, the Acquisition is fair and reasonable to CountPlus shareholders. We have formed this opinion for the following reasons.

Value of CountPlus' 85% interest in Count Financial

152 As set out in Section V we have assessed the value of 100% of Count Financial at between \$9.0 million and \$20.0 million. CountPlus' 85% interest therefore has a value of \$7.7 million to \$17.0 million, as shown below:

Value of 85% interest in Count Financial		
	Low \$m	High \$m
100% value	9.0	20.0
Interest to be acquired by CountPlus	85%	85%
Value of 85% interest	7.7	17.0

Value of Acquisition consideration

153 If the Acquisition is approved and implemented, CountPlus will acquire an 85% interest in Count Financial for \$2.125 million.

Fairness

154 Pursuant to RG 111, the Acquisition is "fair" if the value of the 85% interest in Count Financial being acquired is equal to, or greater than the value of the consideration being paid. This comparison is shown below:

Comparison of Acquisition Consideration to value of Count Financial			
	Low \$000	High \$000	Mid-point \$000
Value of 85% of Count Financial	7,650	17,000	12,325
Acquisition Consideration	2,125	2,125	2,125
Difference	5,525	14,875	10,200

155 As the value of the 85% interest in Count Financial to be acquired exceeds the consideration to be paid, in our opinion, the Acquisition is fair to CountPlus shareholders when assessed based on the guidelines set out in RG 111.

Reasonableness

156 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the Acquisition is also "reasonable" to CountPlus shareholders.

Advantages and disadvantages

157 We also summarise below the advantages and disadvantages of the Acquisition from the perspective of CountPlus shareholders other than CBA.

Advantages

- 158 As indicated above, in our opinion, the acquisition of Count Financial is value accretive for CountPlus as the purchase price of \$2.5 million (on a 100% ownership basis) represents a significant discount to:
- (a) the NTA backing of the business on completion of \$14.8 million
 - (b) the net cash position of Count Financial on completion of around \$11.95 million
 - (c) our assessed value of the Count Financial business under CountPlus ownership of \$9.0 million to \$20.0 million (on a 100% ownership basis).
- 159 Prima facie, the acquisition of Count Financial also appears to be a good strategic fit for CountPlus, with 15 CountPlus member firms already providing financial planning services under the Count Financial banner and its AFSL.
- 160 The Acquisition will also increase the scale and diversity of the CountPlus business, and is consistent with the increased market alignment expected between accounting firms and financial planning firms moving forward (as financial advisers are moving away from major institutions towards smaller independent businesses (including accounting firms) due to the changing regulatory environment).
- 161 The increase in the ability of CountPlus member firms to provide financial planning advice to their clients may also result in revenue and cost synergies in the medium to longer term.

Disadvantages, risks and mitigating factors

Risks during business transition

- 162 Count Financial has generated operating losses as part of CBA over recent years. However, these historical results do not reflect the earnings potential of the business under CountPlus ownership for the reasons outlined in paragraph 104. Based on the significant level of due diligence undertaken, CountPlus management believe the Count Financial business can transition to profitability under its ownership. Further, the Count Financial business will be well funded on completion, with the net cash balance of around \$11.95 million providing a significant buffer against future operating losses.
- 163 Should Count Financial not return to profitability⁶¹, CountPlus management have estimated that associated closure costs would be less than \$3.0 million (which should also be covered by the net cash balance of \$11.95 million in Count Financial on completion).
- 164 Whilst there is a risk that operating losses and closure costs in the worst case scenario could exceed the net cash balance being acquired on completion, this risk should be balanced by the much greater value upside should the business return to profitability as expected.

⁶¹ CountPlus management have a target date of around June 2022 to assess the long-term profitability prospects of the Count Financial business.

Exposure to customer remediation liabilities

- 165 CBA is also providing significant indemnities to CountPlus, such that customer remediation liabilities arising from the operation of the Count Financial business prior to the implementation of the Acquisition will continue to be met by CBA up to the indemnity cap of \$200 million. While not presently expected, it is possible that:
- (a) actual costs in respect of presently known issues could exceed the indemnity cap of \$200 million
 - (b) currently unknown issues may arise that have a cost implication (which could also increase the total remediation costs above the indemnity cap).
- 166 To address this possibility, the Indemnity Deed states that the parties will meet to discuss in good faith potential changes to the indemnity cap if:
- (a) a review of the refund rates for ongoing service matters, which will be undertaken at an agreed time, is materially greater or less than the rate of 24%; or
 - (b) the aggregate amounts paid in relation to certain categories of inappropriate advice given by Count Financial advisers prior to completion exceeds \$12.5 million.
- 167 However, it should be noted that CBA is not legally bound to increase the cap.
- 168 Whilst there is therefore some possibility that CountPlus could incur a liability associated with the above remediation liabilities, this is not expected to be the case because:
- (a) the current indemnity cap is some 38.9% above CBA's provision for expected customer refunds as at 31 March 2019
 - (b) CountPlus management expect that CBA will act in good faith and agree to any appropriate increase in the cap in the unlikely event that this is required (consistent with the basis upon which the parties have negotiated the Acquisition and related Indemnity Deed); and
 - (c) Count Financial is a separate legal entity (which will not be guaranteed by CountPlus), and accordingly it will be possible to quarantine losses within Count Financial to minimise any impact on the value of CountPlus in the unlikely event that the remediation liabilities significantly exceed \$200 million and CBA refuses to increase the indemnity cap.

Overall opinion

- 169 On balance, we believe the advantages of the Acquisition significantly outweigh the disadvantages. Whilst there is some risk the Acquisition may not be successful due to the uncertainty associated with the current regulatory environment and related changing market conditions, in our view, the potential upside more than offsets these risks and provides CountPlus with the opportunity to be a major independent provider of professional accounting and financial planning advice.

Other matters

Loss of income

- 170 CountPlus received fees and commissions from Count Financial (based on the level of business referrals from CountPlus member firms) of \$1.28 million in FY18, and is expected to receive a similar amount in FY19. This income arises pursuant to the Relationship Deed signed between both parties many years ago. This income will no longer be received if the Acquisition is implemented, which will have a negative impact on the standalone earnings of CountPlus.
- 171 However, it should be noted that this income is likely to be lost in any event, as CountPlus management believe there is a strong possibility that CBA may close down Count Financial if the Acquisition is not implemented.

CBA shareholding

- 172 CBA is the largest shareholder in CountPlus, holding 35.9% of the ordinary shares on issue. Subsequent to completion of the Acquisition, CBA has stated an intention (subject to favourable market conditions) to dispose of its shareholding in CountPlus in an orderly manner.
- 173 Whilst CBA's intended sell down of its shareholding in CountPlus should have no direct impact on other CountPlus shareholders, we expect that any such sell down will:
- (a) increase the level of institutional interest in CountPlus shares; and
 - (b) lead to an increase in trading volumes in CountPlus shares (due to the larger free float).
- 174 This increase in share liquidity may lead to a re-rating of CountPlus shares in the medium to longer term.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001* (Cth) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to CountPlus shareholders in connection with the Acquisition.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$200,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 25 years and 33 years' experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Directors of CountPlus to accompany the Explanatory Memorandum to be sent to CountPlus shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Acquisition is fair and reasonable to CountPlus shareholders.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Acquisition. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, CountPlus agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of CountPlus which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

Appendix C

Glossary


Abbreviation	Definition
Acquisition	The proposed acquisition of 100% of Count Financial by CountPlus (85%) and the Count Member Firm Special Purpose Vehicle (15%)
AFCA	Australian Financial Complaints Authority
AFSL	Australian Financial Services Licence
AMP	AMP Limited
ANZ	ANZ Banking Group
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CBA	Commonwealth Bank of Australia
Centrepoint	Centrepoint Alliance Limited
CFS	Colonial First State Investments Limited and Avanteos Investments Limited
CFSGAM	Colonial First State Global Asset Management
Company	CountPlus Limited
Corporations Act	Corporations Act 2001 (Cth)
Count Financial	Count Financial Limited
Count Member Firm Special Purpose Vehicle	Refer footnote 1 on page 1 for details.
CountPlus	CountPlus Limited
CountPlus non-associated shareholders	Shareholders of CountPlus not associated with CBA
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
FASEA	Financial Adviser Standards and Ethics Authority
FOFA	Future Of Financial Advice legislation implemented on 1 July 2013
FSG	Financial Services Guide
FTE	Full time equivalent
FUA	Funds under administration
FY	Financial year
IBISWorld Report	IBISWorld April 2019 report entitled “Financial Planning and Investment Advice in Australia”
IER	Independent expert’s report
Indemnity Deed	Indemnity deed to be entered into by CountPlus and CBA. See paragraph 4(c) for details
LEA	Lonerган Edwards & Associates Limited
Legacy Revenue	Count Financial income from trailing commissions and rebates
NAB	National Australia Bank
NPV	Net present value
NTA	Net tangible asset
Relationship Deed	Relationship Deed entered into by CountPlus and Count Financial in November 2010 and amended in 2015
RG 111	ASIC Regulatory Guide 111 – Content of expert reports
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017


Appendix C

Abbreviation	Definition
TFSA	Total Financial Solutions Australia Limited
TV	Terminal value
Viridian	Viridian Advisory Pty Ltd
WANOS	Weighted average number of shares outstanding
WBC	Westpac Banking Group

CUP
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

 **Online:**
www.investorvote.com.au

 **By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

Proxy Form

XX



Vote and view the notice of meeting online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I9999999999 PIN: 99999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



 **For your vote to be effective it must be received by 10.00am (Sydney Time) on Sunday, 4 August 2019**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form →**

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030



Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of CountPlus Limited hereby appoint



the Chairman
of the Meeting **OR**



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of CountPlus Limited to be held at Grant Thornton, Redwood Meeting Room, Level 17, 383 Kent Street Sydney NSW 2000 on Tuesday, 6 August 2019 at 10.00am (Sydney Time) at any adjournment or postponement of that meeting.

STEP 2 Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Approval of Acquisition

For

Against

Abstain

☐☐☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact
Name

Contact
Daytime
Telephone

Date / /

CUP

999999A

Computershare +



