




CountPlus
Quality Partnerships, Leading Advice

CEO LETTER TO SHAREHOLDERS



We have a clear view of where success will be found in the future – delivering client-focused strategies.

FROM TURNAROUND TO TRANSFORMATION

1

Dear fellow shareholder,

On behalf of our team, I am pleased to report on the progress of the rebuilding of the CountPlus business in line with our strategic plan, and to provide some insights into the work ahead, including the acquisition of Count Financial to the CountPlus business.

Our business turnaround has been a key objective since May 2017, and has included a comprehensive strategic review, a cultural reset that the new leaders in our firms have led, and a focus on the development of individual growth and alignment strategies for each member firm. A disciplined approach to the four cornerstones of professional practice – planning, people, leadership and processes – has led to across-the-board achievement of the key goals we set when we commenced our turnaround.

A case study on the importance of these four cornerstones is highlighted in this letter. This examination of Bentleys Perth focuses on leadership, planning and the next generation's belief in effective decision-making through collaboration, rather than the traditional mode of command and control. Indeed, one of our core values is teamwork; we believe in the collective wisdom of the team.

In previous letters to shareholders, I have written about how the shared values and non-negotiable team rules have been the foundation for our improved financial results. That continues to be our source of strength and is the same process we will undertake for the Count Financial business. I will look deeper into that transaction in the coming pages.

It has been a challenging time, but the immediate success our member firms are enjoying in terms of profitability for CountPlus, is testament to the value of the process we undertook. We have a clear view of where success will be found in the future – delivering client-focused strategies.

Putting the client at the centre of our world is not mere corporate speak. The CountPlus Advice Value Proposition designs the entire structure of the business – including its network of advice firms, technology partners and service providers, governance structures, quality assurance, education and professional development – around the needs of the client.



KEY PERFORMANCE

Our approach will continue to focus on making a decent profit, decently.

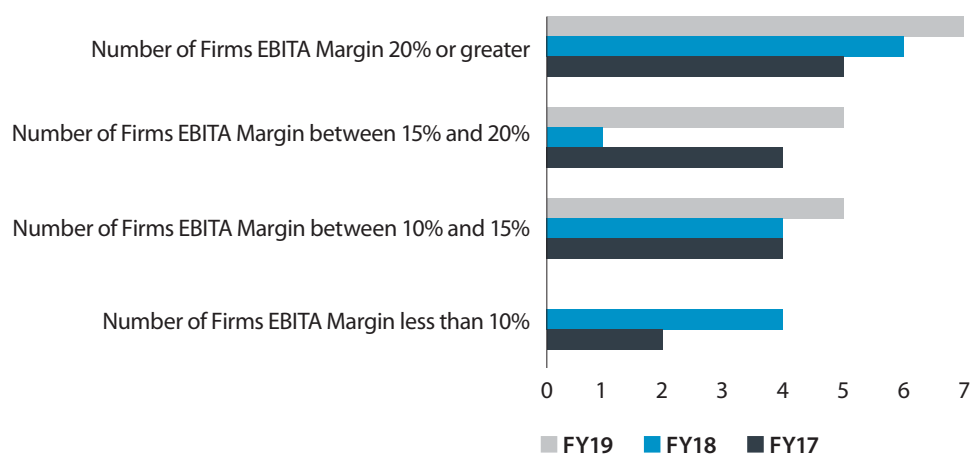
CountPlus posted an adjusted net profit after tax (NPAT) of \$5.002 million for the year ended 30 June 2019, which is a 33% increase from the \$3.764 million for the year ended 30 June 2018. Adjusted earnings per share increased by 34% to 3.33 cents, from 2.48 cents.

We are pleased to announce a 1 cent dividend per share to shareholders for the period, bringing total dividends for the financial year to 2 cents per share.

As a result of disciplined financial controls and a focus on firm core activities, the average EBITA margin of member firms rose to 20% in the year ended 30 June 2019, up from 15% for the same period a year ago and 12% from when we commenced our turnaround plan.

Financial metrics	FY19 \$'000	FY18 \$'000	FY17 \$'000
Revenue per full time employee (Firm level)	196	182	177
Average firm EBITA margin (%)	20%	15%	12%
Employment costs – % of revenue	61%	66%	68%

EBITA/Revenue performance same firm analysis



Within the CountPlus network, seven firms achieved EBITA margins of greater than 20% and only 2 remain at below 12% margin, with both expected to show significant improvement in 2020. The firms achieving below 15% have undertaken changes in the last 18 months and we see improvement in their performance month by month.

The planning and processes behind each firm achieving best-practice profit margins are now embedded discipline.

Employment costs to revenue fell to 61% in 2019, down from 66% as at 30 June 2018. Our target is 60% or lower over the short term. Revenue per full-time employee at the firm level rose to \$196,000 for the 2019 financial year, up from \$182,000 as at 30 June 2018 and \$177,000 in 2017.

Other improvements include an increase in associates' earnings due to underlying growth of existing firms and from the successful take up of our Owner, Driver-Partner model (OD-P) by O'Brien Accountants and Advisors and Rundles Chartered Accountants.

This is expected to keep growing as a result of improved performance from underlying associate firms and onboarding investments in new firms.

During the year, we commenced proceedings against certain former Principals in relation to their post-employment restraints. These Court proceedings were settled and CountPlus accepted settlement sums – some of which will be payable over the next reporting period – as appropriate amounts. CountPlus takes matters of this nature extremely seriously and will act to protect our shareholders, member firms, clients and people.

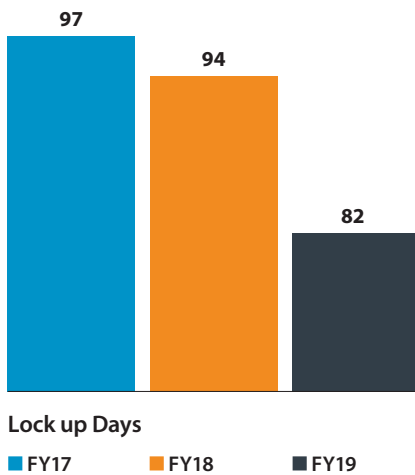
Our firms have also focused on profitable client revenue, with a move towards client work that is valued and ensures the firm is achieving an acceptable margin for the skills, professional experience and value it delivers. It is this focus on the right revenue and client relationships that will generate sustainable margins for all and ensure we can continue to make a decent profit, decently.



Balance Sheet

Lock up days

30 June 2017 to 30 June 2019



When our turnaround program commenced, it became obvious that some member firms' management of lock-up needed substantial improvement. Firms with lock-up exceeding 150 days spoke to unacceptably high client-job turnaround times and poor management discipline and practices. Our core business is 'asset lite', the major assets on our firms' balance sheets are (1) work in progress and (2) debtors. The effective management of these assets is entirely within the firm's control and can be considered a proxy for client satisfaction.

A clear plan, management discipline, an overhaul of processes and implementation of new systems has reduced our average lock-up to 82 days as at 30 June 2019. This is down from 94 days at 30 June 2018 and 97 days at 30 June 2017. We have achieved our objective to reduce lock-up to 85 days or less, improving operating cash flow for both member firms and CountPlus. More than half of our firms now operate at best-practice levels of below 80 days lock-up, and four firms are achieving lock-up below 70 days.

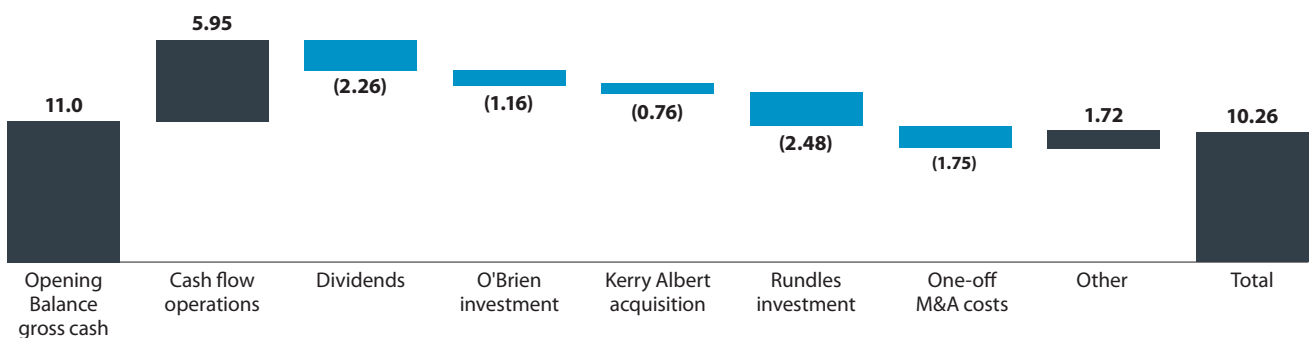
Our continued focus on operating cash flow has allowed net cash to remain strong at \$8.503 million for 30 June 2019, a slight reduction from \$8.975 million at 30 June 2018.

When looking at our cash deployment through 2019, shareholders can see that we have funded the due diligence costs of Count Financial, investments in Rundles Chartered Accountants, investment in O'Brien Accountants and Advisory, the purchase of Kerry Albert & Co and dividends largely from operating cash flow.

Operating cash conversion for adjusted EBITA remains strong at 85%.

Cash deployment

FY19 – \$'M



6

OUR MISSION, AND THE RESULTS

It is important for our shareholders to know that the most important work we have done has been foundational – a rebuild of our strategy and planning process onto which we added the people and systems to enable our firms to perform to their potential.

When we began this turnaround process two years ago, we announced that we would focus on redefining what CountPlus stands for and what success looks like. We then set about focusing resources and management bandwidth on five key strategic drivers – Firms, People, Focus, Financial and Community.

Two years later, our team is happy to report that the rebuilding work is largely complete and we are now positioned to focus on growing the business.

To help position CountPlus and its member firms to reach their potential, we first revitalised and refreshed the leadership and governance of our member firms as needed. This introduced a new wave of senior, trusted and capable leaders, allowing strategic plans to be created with confidence that the objectives those businesses aspired to could be met. The feedback from the firms on the quality and experience we have introduced to help them with their businesses has been resoundingly supportive.

Our new leaders empowered their teams, strategic plans were built from the ground up and key objectives were agreed upon that would help the firm as a whole and the people in our care achieve professional and personal success. Every firm now has a clear strategic and business plan and results against these plans are communicated to the team in a transparent and collegial manner.

The metrics we monitor have all shown improvement. First, our member firms' profit margins have improved. When we started our restructuring, we aimed to achieve an average firm margin of 20%. This has been achieved, reflecting almost double what the average firm profit margin was when our turnaround plan was implemented.

Revenue per FTE has also increased within each firm, meaning the efficiencies and new structures are allowing our teams to be more productive while focusing on what their clients value most.

We have also looked closely at where we can partner across the industry, and have worked with businesses such as Class and Xero to improve efficiencies at a client level, along with our own internal processes, to provide timely reports that show us how our member firms are performing compared with the broader network. This helps members benchmark their own operations and see what 'good' looks like as they compare themselves with high-performing teams operating under the same model.

It is important for our shareholders to know that the most important work we have done has been foundational – a rebuild of our strategy and planning process onto which we added the people and systems to enable our firms to perform to their potential. When we began this review, only two of the member firms had a clear plan; today, they all have developed their vision for their future, their values and team rules, and an aligned view of what success looks like with a roadmap to deliver on this plan.

Our focus on the four professional practice cornerstones has delivered improved profit margins, strong operating cash flow, significantly reduced debt, shareholder dividends and a platform on which to take on the next opportunity: the transformational acquisition of Count Financial.

In many respects, the acquisition itself was the easy part. We now have to deliver on the potential. We have a clear plan for how we go forward.

On 6 August 2019, CountPlus shareholders voiced their support for the acquisition of Count Financial from the Commonwealth Bank, as 99.79% voted in favour of the move.

Acquiring Count Financial from Commonwealth Bank is both a solid decision based on business fundamentals and a strategic move.

In many respects, the acquisition itself was the easy part. We now have to deliver on the potential. We have a clear plan for how we go forward.

The future of advice

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry caused significant damage to the reputation of the financial planning sector.

CountPlus believes in the value of advice for all Australians, and that financial advice businesses can be run to generate a decent profit, decently. The value of professional financial advisers is without question:

- ▶ “A new report released by Russell Investments estimates the ‘full value equation’ of a financial adviser’s services – beyond investment-only advice – at a minimum of 4.4 per cent of investible funds, with the avoidance of behavioural mistakes providing the lion’s share of value.” – Professional Planner, July 18, 2019.
- ▶ According to the Productivity Commission, financial advice adds \$4.6 billion to the economy each year.

Adviser Ratings indicates that there has been an 11% drop in the number of advisers on ASIC’s Financial Adviser Register from its peak in December. Yet only 20% of Australians receive professional financial advice.

The financial advice sector must reform itself based on the needs of clients and we believe the accounting profession is perfectly placed to work in tandem with clients and advisers on the delivery of those advice needs.

The first 100 days

Working with Count member firms, we have prepared a 100-day plan so we can quickly align the businesses with our core purpose. We have reviewed all aspects of the business through the lenses of Firms, People, Focus, Financial, and Community – the same core principles we use across the CountPlus business.



The leadership team will be the driving force for the success of Count Financial in the new world of financial advice.

Culture eats strategy for breakfast

Our first objective – and by far the most critical – is the development of a culture that reflects the best of both businesses. About 83% of successful mergers are attributed to the effective merging of the two cultures¹.

That culture is absolutely fundamental to success is also highlighted in research by Deal & Kennedy where it found that culturally strong companies averaged 571% higher gains in operating earnings than companies that are culturally deprived. The research also found that companies with strong cultures increased their share prices by 363% more than others.

The important pillars are effective decision-making, people selection, the right success measures, processes and systems, and communication. We will leverage our cornerstones of professional practice to implement our Count Financial strategy successfully.

People

The leadership team will be the driving force for the success of Count Financial in the new world of financial advice.

We have placed people with significant experience onto the Count Financial Board. Of the five members, two have experience as board members for the Financial Advisers Standards and Ethics Authority, three have been on the board of the Financial Planning Association, two have represented Australia on the global standards body, two have been practising financial advisers, one has a strong background as a consumer advocate and all five have more than 20 years of experience in their respective fields.

Turning to the senior management team of seven:

- ▶ Four have been practising financial advisers
- ▶ Four have run a small business similar to a typical Count member firm
- ▶ Five have more than 20 years of experience in financial advice
- ▶ Five have Count experience
- ▶ Three have CountPlus experience
- ▶ Three have operated as the CEO of a complex advice business

Most importantly, all the members of the leadership team have a deep passion for financial advice and understand that it is the clients of the underlying Count member firms that essentially pay the bills, not a large institution.

¹ KPMG International study.

In a short time, we will implement our plan to bring Count Financial into the modern age of advice.

The opportunity for growth

It is important to highlight that Count Financial offers CountPlus the immediate ability to scale. This is one of the key areas through which we will add value to the CountPlus business.

With the reduced operating costs of Count Financial, the acquisition is expected to be profitable for shareholders. In a short time, we will implement our plan to bring Count Financial into the modern age of advice, not only making it comply with legislation around new education standards and the banning of grandfathered commissions, but also forming a standard bearer for what a financial advice business of the future should be.

It will accelerate our vision of becoming Australia's leading network of professional accounting and advice firms, aligned through shared values, mutual success and our sense of community.

Creating cultural alignment

A leadership change at Bentleys Perth – and the fostering of a new culture that aligns with the key CountPlus values and strategic drivers – is a perfect case study of how CountPlus focuses on lifting up its network to achieve its potential.

The firm lacked a strategic and operating plan, so a lot of work went into developing a strategic plan that focused on principal activity, shared goals and accountability.

Bentleys is recognised as a successful mid-tier brand across Australia. In Perth, it also reflects the lifeblood of the state and the community in which it operates. Its client list increasingly features businesses from mining, mining services, property, technology, manufacturing, retail and construction, so the work it does and businesses it guides are closely linked to the primary commercial activities across WA.

Its clients include ASX-listed companies and not-for-profits, in addition to large private companies. To these sectors it offers a wide range of professional services, including dedicated SMSF and financial planning divisions in addition to audit, corporate advisory, business services and corporate tax corporate finance services.

CountPlus invested in the firm nine years ago, and as part of the CountPlus strategic review of each member firm, the decision was made in October 2017 to install a new leadership team to bring the Bentleys purpose into alignment with the CountPlus vision. Chris Nicoloff, who was already well known to the local business community when he joined the business in 2015, was elevated to Managing Principal. For him, the transition to a new leadership model presented many challenges – and opportunities.

“As part of the transition, the previous managing principal and two other founders left the business,” Nicoloff says. “It was an emotional time and a very difficult process to go through. I had been brought in to help grow the firm, given my experience in business development, and taking over the leadership at that time was a tough introduction, although the business is undoubtedly stronger for the change.”

The new strategic direction included “starting with a clean sheet of paper”, the appointment of an Independent Chair to the firm, and implementation of a new governance structure. The firm lacked a strategic and operating plan, so a lot of work went into developing a strategic plan that focused on principal activity, shared goals and accountability. This was established amidst the expected disruption as a result of the changes at the top.

CountPlus has a very experienced team, but they will let you run your own race. It's really fantastic, and we appreciate being left in control of running the business.

As with any movement of senior staff out of a business, Bentleys had to manage the departure of clients in addition to the former owners. This opened the door to the creation of a new business, which involved the development of a new culture.

"There was a new accountability placed on people within the business," Nicoloff recalls. "It's important with the development of a new culture that everyone there is part of it, and believes in it."

"[CountPlus CEO] Matthew Rowe presents what he expects from a member firm, but he's also there for the journey. There wasn't a single time that he didn't respond to me quickly, which was really important at key times. The appointment of Paul Burton as the independent Chairman of Bentleys Perth represented further support from CountPlus. Paul's support and counsel in making decisions and designing a new strategy has been invaluable."

"We have a brand-new strategy for the business, developed from scratch, and the values of the business have been completely refreshed."

The CountPlus model ensures that strategy and its execution are never taken out of management's hands but are instead boosted by the expertise CountPlus brings to the business.


"The thing about CountPlus is that they are always there to help, but they really do prefer a hands-off operational management approach," Nicoloff says. "When we designed the new strategy in 2017, the current principals at Bentleys collectively created it. When Matthew [Rowe] travelled over to review it, he was happy to approve it as it stood. It was a great validation of the strategic vision of the team within the business."

"CountPlus has a very experienced team, but they will let you run your own race. It's really fantastic, and we appreciate being left in control of running the business. We recently had a strategic day to look at tweaking our plan, and the feedback on the work we had done was similarly positive. It gives us great confidence that we're operating the business as we should."

Today, the Perth office has six principals, 45 team members and four overseas support staff. While its immediate financial reports reflect the complications of having clients leave after a management change, the onboarding of a raft of new clients has boosted confidence throughout the business and let the leadership team know that the future is bright. Lock-up has been reduced from 94 days to 79 days, staff productivity has improved, staff turnover is at best-practice levels, debt owed to CountPlus has fallen by 33% and EBITA in 2019 grew by 54% over that achieved in past years.

The newly positioned business is already winning new clients and has strong expansion plans in place, including the partial or complete acquisition of other businesses in both the business advisory and financial planning spaces. The stabilisation of the business following leadership change and the compelling nature of its proposition to the community mean that its future is bright.

The Bentleys business has been a great example of what is achievable in even the most challenging of restructures.



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