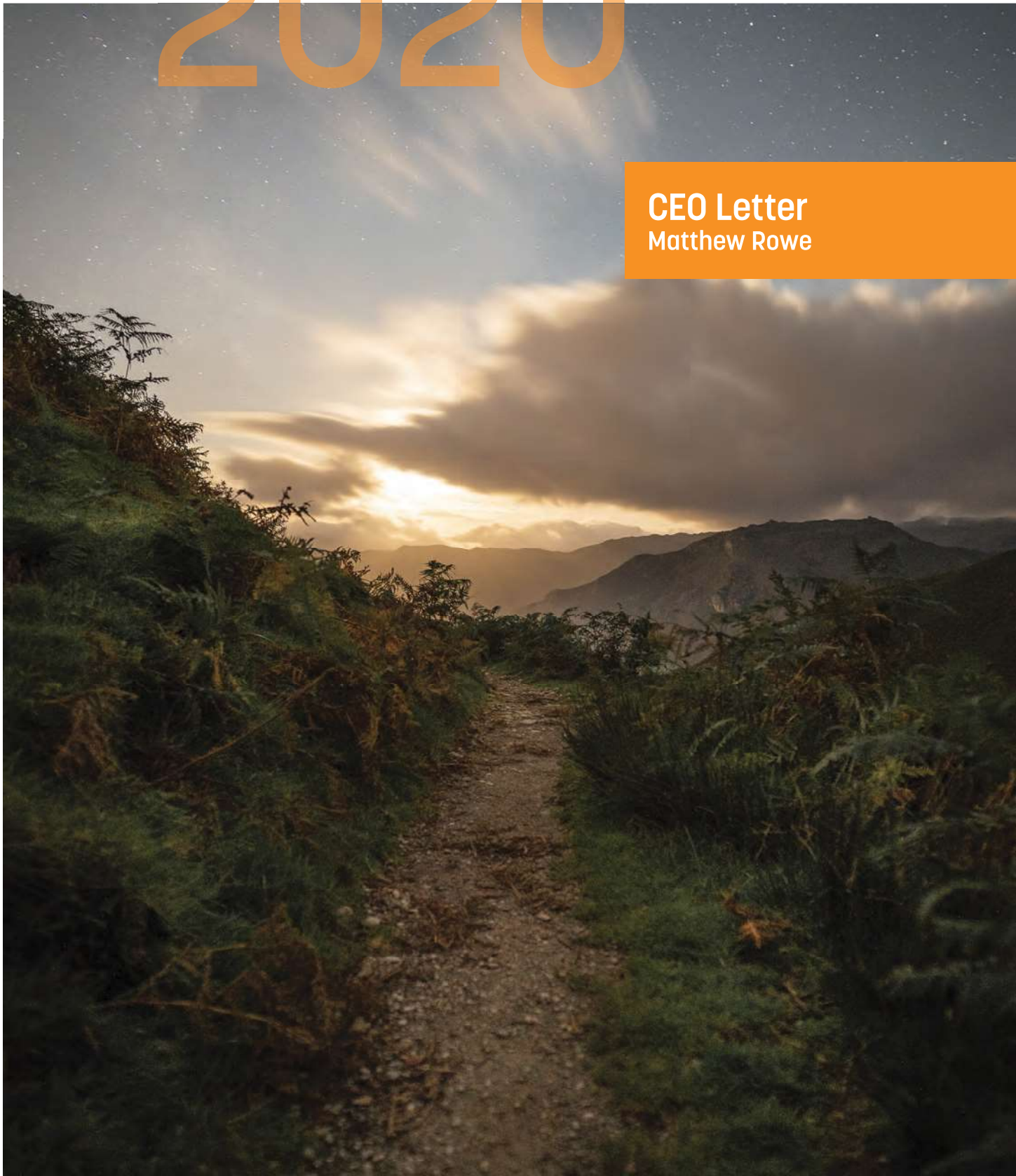


# 2020

**CEO Letter**  
Matthew Rowe









# Dear fellow shareholder,

## Firstly, thank you for your continued support as a shareholder in CountPlus.

On behalf of the executive team, I am pleased to provide an update on the CountPlus business and activities we have been focused on over the past six months. I will dedicate a large part of this CEO letter to the progress being made with Count Financial.

In the 1H2020 management bandwidth has largely been focussed on the effective transition of Count Financial to the custodianship of CountPlus. In six weeks from gaining shareholder approval our team effectively “lifted and shifted” the business, a significant undertaking.

Beyond the Count Financial transition and implementation, it is pleasing that the half year results produced:

- ▶ An increase in the dividend payable by CountPlus to our shareholders to 1.25 cents per share, an increase of 25% over the same period last year.
- ▶ Adjusted Net Profit attributable to shareholders increasing by 7% year on year.
- ▶ Firm EBITA margin in 1H2020 increasing to 20% up from 18% in 1H2019.
- ▶ Whilst margins improved, the firm adjusted earnings were relatively flat in 1H2020 compared to the same period last year. We are seeing a shift in production and productive capacity in some of our larger firms away from H1 to H2.
- ▶ Cash on hand stands at more than \$20m, which is up from \$11m at 1H2019 and this is after deploying \$6.1m on acquisitions.
- ▶ Our Net Tangible Assets are 29.69 cents per share, which is up from 26.12 cents per share at 1H2019.
- ▶ Firm lock-up stands at 80 days, an improvement from 89 days in 1H2019 and 97 days at 1H2018.
- ▶ Our earnings from our investments in Owner-Driver, Partner associate firms increased by 74% from \$0.6m at 1H2019 to \$1.1m at 1H2020.



## Financial

With Count Financial now forming part of our 1H2020 financial results, it is important to explain the impact this has had on our financial reporting.

Count Financial was acquired on the 1st October 2019 for \$2.5m. The purchase price allocation resulted in the identification of two separately identifiable intangible assets: brand (\$1.3m) and customer relationships (\$3.3m). A gain on bargain purchase of \$12.5m attributable to CountPlus Ltd was recognised on acquisition.

The recognition of a bargain purchase represents the excess of the identifiable net assets of Count Financial over the purchase price consideration. Most of this net asset amount was cash at bank.

Included within the acquisition balance sheet of Count Financial was a remediation provision in relation to “fees for no service” which includes remediation of historical ongoing service failure, inappropriate advice and ongoing services fees being charged to deceased estates.

As at 30 June 2019, Count Financial recorded a remediation provision in their financial statements of \$143.3m, with a corresponding indemnification asset of the same amount receivable from CBA. The acquisition of Count Financial by CountPlus included an Indemnity Deed, providing for indemnification on such matters of up to \$200m granted by CBA with an ability to renegotiate and increase this amount under certain conditions.

The remediation provision was calculated in accordance with RG 256 Client Review and Remediation and the key assumptions and inputs in the remediation provision were as follows:

- ▶ fees spanning 11 years prior to the misconduct were included i.e. back to 30 June 2008, (RG 256 recommends seven years);
- ▶ failure rate of 24%; and
- ▶ interest at 6% above the RBA cash rate (RG 256.133) charged on a simple basis until January 2021 which is up to date of estimated settlement.

## Focus

The team at CountPlus continues to strengthen our business and focus on the key things that drive positive outcomes, create value and manage risk.

In order to ensure compliance with the new revenue recognition standards (AASB15) we redesigned the process and engagement letters that our firms issue to clients. This was successfully rolled out and is adopted across all our subsidiary firms. As a result, we have seen improved workflow, production and capacity planning in our firms – demonstrated by lock-up days continuing to reduce. Some larger firms have shifted workflow (and revenue) from H1 to H2 as a result.

We have also revamped our core firms' risk management systems and processes, introducing technology-assisted risk management reporting, an uplift in our risk management process and improved information flows across the group.

We have embedded cloud-based reporting tools that simplify the reporting process undertaken by our firms to CountPlus and give us a real time snapshot of the financial health of our firms and consolidated reporting on key metrics.

It is recognised that paper-based record keeping at a firm level is sub-optimal when operating an advice business model with self-employed advisers. The CBA will fund and manage the scanning and digital uploading of all paper-based client records to the Count Financial XPlan CRM platform. This significant uplift in firm data and record keeping will assist Count Financial to move to a real time data driven supervision and monitoring framework.

The team has also been working to successfully transition some 45 advisers from Total Financial Solutions and onboard them with Count Financial.

Culture in a people business is part of our sustainable competitive advantage and is not easily replicable by competitors.

## People

CountPlus has made an investment in people, seen by the increase in salaries of \$1.9m, \$1.7m of which relates to Count Financial, in 1H2020 compared to 1H2019.

We have invested in experienced professionals to provide coaching, performance management and a strong governance role as Chair of the firms in which we hold a financial interest. This cohort of firm Chairs will enable us to leverage our Owner-Driver, Partner model. They bring to focus the alignment of shareholder interests in our firms as well as consistency in our approach to the key success factors of leadership, planning, process and people.

We have built an M&A capability in house that has an ability to review the increasing number of opportunities being presented. We have built processes starting with opportunity identification, to valuation, prudent due-diligence and effective implementation that will assist our growth ambitions.

We have also invested in human resource subject matter experts, risk management and information systems expertise. These are team members that will help CountPlus, Count Financial and our member firms build stronger and sustainable businesses.

Culture in a people business is part of our sustainable competitive advantage and is not easily replicable by competitors. We undertake culture surveys across all firms and business units, and we benchmark results. On key indicators of collaboration and teamwork we score at 89% and management alignment with values and culture we score at 88%.

## Community

CountPlus has a view that being part of a profession means giving back to the community we serve. Our firms have a grass roots approach to pro-bono services as well as philanthropic giving. This speaks to our culture and “family photograph” and indeed to be a part of CountPlus means having this world view – to give back to the community, to collaborate with peers and to take a servant leadership approach to people.

Our ongoing relationship with the Count Charitable Foundation is an important and valued part of our family photograph. We anticipate in the 2020 financial year the Count Charitable Foundation will donate \$1.0m to worthwhile charitable causes and community groups.

# Count Financial

In August 2020, Count Financial will celebrate 40 years of providing financial advice to Australians. Over 40 years a lot has changed in the financial advice landscape and yet Count Financial continues when many others have ceased to exist.

It is fair to say that we have seen nothing in the last 40 years compared to what we are facing now – indeed in my opinion we face the most significant dislocation to the financial advice profession – ever. A culmination of known events – the Hayne Royal Commission, legislative and regulatory changes, the exit of once dominant vertically integrated institutional players and new education and professional standards – are all coming into play at the same time.

Consider that in each year for the past two years some 25% of financial advisers have either left the industry or changed licensee. This level of change brings with it a wide range of associated complexities, from recruitment issues through to the reallocation of clients. Adviser Ratings estimates that there will be \$900 billion in client money that will be “orphaned” through volatility in the financial adviser market.

The churn of advisers is happening before three notable issues have completely played out: the removal of grandfathered commissions, the FASEA exam and the arrival of mandated university qualifications for all existing and new financial advisers.

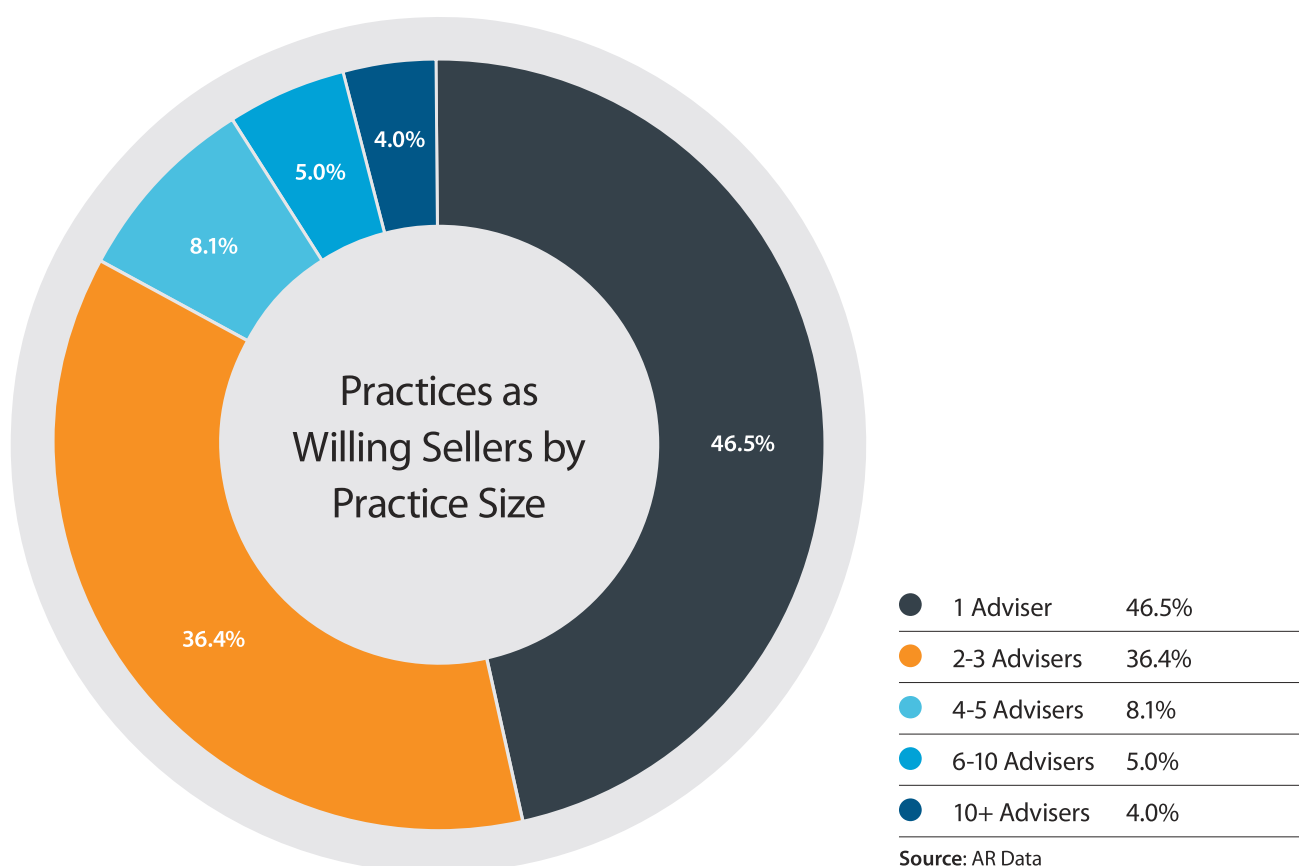
The supply side challenges in the industry are daunting<sup>1</sup>:

- ▶ Financial advisers are exiting the industry at record rates, with 15% leaving over the first 10 months of 2019 and 17% annualised. This is 70% more than the adviser exits of 2018.
- ▶ The five-year forecast remains on track for the financial advice market to shrink to 15,000 financial advisers.
- ▶ 82% of Financial Advisers will need to undertake some form of study.
- ▶ Currently 17% of financial advice firms are willing sellers – some 1,500 firms. Many sellers are under severe financial stress and for those with sub-\$500k in revenue there is limited demand to acquire.
- ▶ Culling of unprofitable clients and attrition by under-served clients reduced average client numbers per adviser by 8% from 102 to 94.

The demand side of the financial advice equation shows there are challenges but an increasing unmet need for financial advice.

Some 74% of advised Australians are over 45 and it is estimated that financial advisers have penetrated 53% (\$1.5 trillion) of pension fund wealth and 67% (\$500 billion) of SMSF wealth.

With fewer advisers to service this current penetration, it is likely there will be “flight to safety” by clients seeking advice business that are professional and sustainable.





The persistence of low consumer trust in the financial advice profession is unsurprising but deeply concerning nevertheless, with an ASIC<sup>2</sup> study revealing 37% of consumers believed that advisers did not have their customer's best interests at heart. And yet demand is growing, with 25% intending to get advice in next 12 months and 41% making plans to engage in the future.



Source: ASIC, Report 627

Financial literacy levels remain low, even for those engaging with financial advice. Adviser Ratings surveyed 20,000+ consumers who have or are currently receiving advice, and 44% rated their own financial literacy at average or worse.

There can be no doubt that there is significant dislocation in the advice space but as before, we are committed to building and maintaining the most trusted network of advice and accounting businesses in Australia.

It is against this backdrop that CountPlus has doubled down on the future of financial advice with the acquisition and integration of Count Financial. As a shareholder there is risk in taking this contrarian approach at a time of dislocation.

We have done what we believe you, our shareholders, would expect, including managing a complex onboarding process to have the Count member firms up and running at the beginning of day one with no downtime for the network, through to undertaking deep dive quality assurance reviews to the business to understand it in detail and formulate a roadmap for success.

#### Count Financial key data points:

- ▶ The average penetration of financial planning services amongst Count Firms is relatively low, with most firms stating only 14% of accounting clients are also financial advice clients.
- ▶ The number of Count financial advisers has decreased from 380 in December 2018 to 281 in December 2019. The Count Financial member firms have decreased from 177 firms in December 2018 to 133 in December 2019. The drop in adviser firms and advisers was anticipated and is largely due to the changes in regulatory environment and pricing models resulting in firms opting out of the financial services sector.
- ▶ Our funds under administration ("FUA") for Count Financial stands at \$7.8b, up from \$7.5b 12 months ago. This increase is after the 26% reduction in Count adviser numbers from the same period.
- ▶ From 1st October 2019 to the 31st December 2019, Count Financial firms have produced and issued 1,272 advice documents. This is a significant improvement on 611 advice documents issued in the comparative period last year given we have 26% fewer advisers.
- ▶ Count Financial has begun the transition to a user pays model from 1 December 2019; under the old model, costs for software, selected research tools and professional indemnity insurance were not recovered. The one-off impact of this is reflected in the transition costs for Count Financial.
- ▶ With the closure of Total Financial Solutions and invitation to a select number of these advisers to join Count Financial, the Count Financial adviser cohort increases to 326, with combined FUA at \$8.94b.



## Shifting the Count Financial business model to the “new world” of financial advice

Count Financial has historically charged relatively low fees to member firms for the provision of services, subsidised software and professional indemnity expenses and received large grandfathered commissions and product platform rebates which are ultimately paid by clients of Count Financial advisers.

In total, approximately 60% of Count Financials revenue relates to grandfathered revenue arrangements which will likely cease from January 2021. Colonial First State announced that it was ending grandfathered revenue arrangements early, which means approximately \$1.5m of grandfathered revenue payable to Count Financial will be redirected to clients in July 2020, and we must prepare for others bringing forward their plans. To mitigate the impact of the changes to these grandfathered arrangements we are well advanced in our plans to have our new pricing model embedded by 1 July 2020.

The project to change and embed our pricing model is complex and poses risk:

- ▶ In recent years, Count Financial has not been profitable.
- ▶ Count Financial has subsidised member firm software costs, professional indemnity insurance and the total cost to serve based on grandfathered revenue received from product manufacturers. Some of these subsidies were removed on the 1st December 2019 as the first step toward a user pays model. The impact of working with firms to adjust to this first stage of the new pricing model was unrecovered expenses from 1 October to 1 December 2019 of \$859,000 which were expected and treated as a transition cost.
- ▶ We have seen the market shift as some 58% of advisers are now authorised by privately owned licensees. With 50% growth in the number of licensees in the last five years there will be significant pressure on regulators and increasing risk for consumers. There appear to be some players in this space competing on a low cost/ compliance model. Whilst we do not believe these business models are sustainable or provide adequate client protection, the economics in the advice space are stressed and these players look – on the surface – to be attractive to some advisers.
- ▶ There is a significant change process underway as Count Financial begins to provide tools to our advisers to identify where revenue will be redirected to their clients that was previously subsidising the costs to serve their firm.
- ▶ Count Financial has been late to the market in addressing the user pays trend in advice businesses. Key to bringing our advisers on this change journey will be open communication and collaboration with our advisers, various calculators and tools to assist them and building a “new world” value proposition that is sustainable for clients, firms and Count Financial.
- ▶ Significant challenges come into play in the 2021 financial year as we move away from grandfathered revenue, reposition our business model and face the risk of falling adviser numbers due to regulatory change.

## New Education Standards

It is estimated that 82% of financial advisers will need to undertake some form of further education to meet the new FASEA education standards.

Count Financial was the second-best placed business in the Adviser Ratings top 20 licensees when it comes to the level of education its network needs to complete. Only 12% of our adviser network will require significant effort in meeting the education standards, compared to a top 20 licensee average of 41%.

## Adviser Numbers

Count Financial Advisers have decreased from 380 in December 2018 to 281 in December 2019. The Count Financial member firms have decreased from 177 firms in December 2018 to 133 in December 2019.

The drop in adviser firms and advisers was anticipated and is largely due to the changes in regulatory environment and firms opting out of the financial services sector. The departing firms are generally smaller firms as is evident by the increase in FUA per adviser firm in the Count Financial network.

Total Financial Solutions ("TFS") had 78 advisers and a decision was made to close TFS post the acquisition of Count Financial and invite a select cohort of TFS advisers to join Count Financial. Since then, 45 advisers and 21 adviser firms came across from TFS to Count Financial. It is important to note that every converged accounting firm in TFS made the move across to Count Financial.

At the time of writing Count Financial has 154 firms and 326 financial advisers.

We have also begun to recruit new firms to join Count Financial, acknowledging that it has been several years since a new firm joined the business.

## Our 100-day implementation plan

In order to manage the transition of Count Financial to CountPlus ownership, we needed to devise a structured and trackable plan to ensure there was no disruption to the network as a result of the move.

We examined the scale of the move and broke the project down into five key areas: Firms, Clients, Focus, Financial, and Community. Within each category, we then identified the key objectives and assigned a leader to be responsible for each item on the 100-day plan.

Throughout the rollout of the plan, we regularly met and checked our progress against the overarching objective, and I am pleased to report that we were able to execute the plan on time, on budget and with no disruption to the service that our community of firms provided to their clients. As a team and community of firms, it was a strong result and showcases what Count Financial can achieve when we have vision, and purpose.

We have just rolled out our second 100-day plan and this will deal with our new pricing model and technology improvements that improve the ability of our member firms to deliver quality advice to clients.

Thank you for your ongoing support. I am proud to lead a team of dedicated people who believe in the value of financial advice and are committed to making a decent profit, decently.

# Count Financial reinvigorated under CountPlus

**Tony Munday**  
Chair, Count Financial Advisory Council



The Count Financial Advisory Council was established to provide a line of communication between the Count Member firms and the leadership, but over the years, the effectiveness of that channel had diminished. Under CountPlus, it has come to life once again.

Chair of the Count Financial Advisory Council, Tony Munday, says that while he has remained committed to the Council since he joined in 2016, the ability to communicate to a leadership team that fundamentally understands financial advice has given it fresh impetus and importance.

Tony says: "There are a couple of things for me that are most evident since the change of ownership, and the first one is that clearly the Count leadership is accountable for delivering on things. Matthew's certainly quite happy to put people in the spotlight and say, 'this is what this person is doing, and they'll report to me on how well they're delivering on it'.

"So that's really good to see. I think that's one of the benefits of the change of ownership – that evident and transparent accountability."

It is clear that the channels of communication have been reinforced – and that the people in the leadership team understand the concerns of the network.

Tony says: "You can now very quickly get through to people who are in a position of responsibility."

Although the flattening of communication channels means that getting the message to the leadership team is once again efficient, there is also the need to communicate the ongoing challenges of the industry from a practice management perspective.

"What I like about the new Count leadership team is that the people on the leadership team – the people that are in executive positions – have got financial planning experience, and that's what it feels like to us," Tony says. "It feels like we all understand what's going on. You are dealing with people with the authority to make decisions and there is a clear alignment of interests between member firms and CountPlus."

"But I think still, the fact that members are running small businesses and have cashflow pressures because of education requirements and all the things that we've got to go through, it will cost money to reinvent our businesses. We've got to work out how do you replace any income that's being lost. So, I think the Council remains a voice to bring legitimate operational concerns to the leadership team."



# 2020

**CEO Letter**  
Matthew Rowe