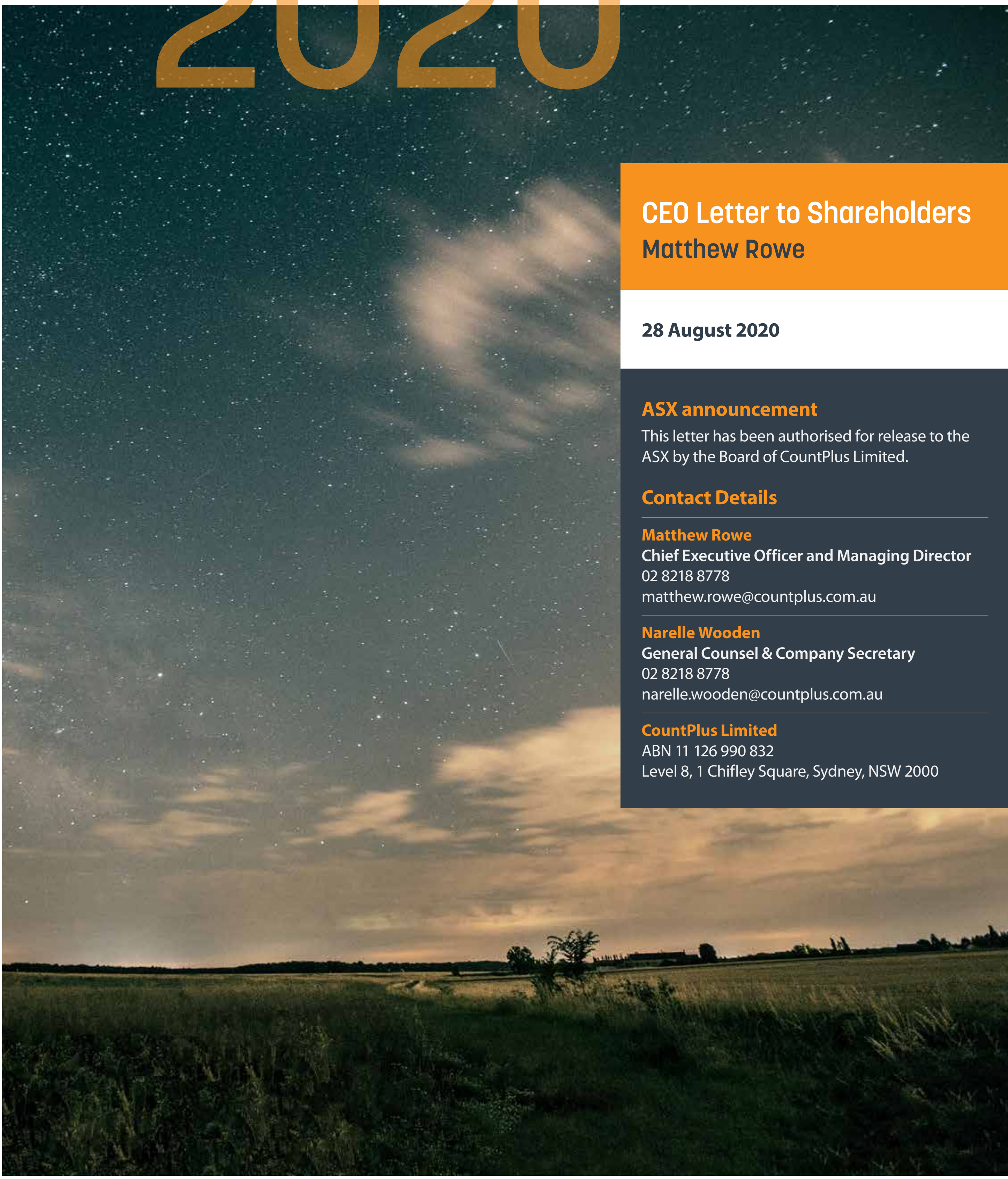
CountPlus
Quality Partnerships, Leading Advice

2020



CEO Letter to Shareholders
Matthew Rowe

28 August 2020

ASX announcement

This letter has been authorised for release to the ASX by the Board of CountPlus Limited.

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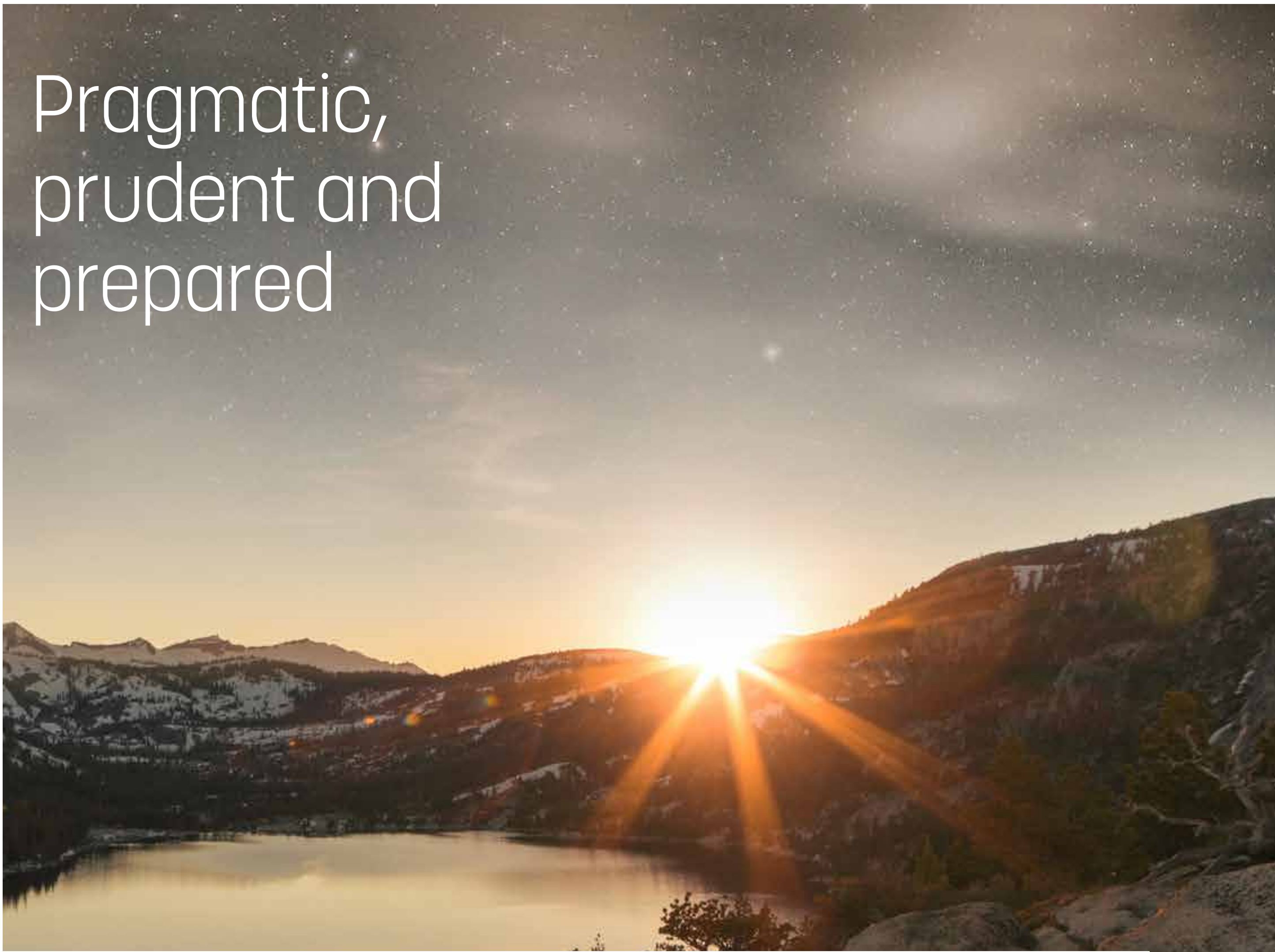

Pragmatic, prudent and prepared

Dear fellow shareholder,

The global COVID-19 pandemic has focused CountPlus on a rapidly evolving and at times urgent set of challenges – with our primary attention directed towards the health and safety of the CountPlus people, business partners and our clients.

The 'new normal' of social distancing, remote working arrangements and the day-to-day uncertainty facing our broader society, our economy, and business outlook generally presents numerous challenges for us all.

For CountPlus, this unprecedented operating environment has helped to harden our combined resolve to identify and manage known business risks, flag longer-term potential issues, but also remain ready to grasp opportunities that may arise.

This demands of us a state of pragmatism, prudent decision making and preparedness.

It is in this context that we report the 2020 Financial Year results.

Financial Highlights

We are pleased to report solid progress for the Company, during a financial year period in which measurable headway was made to consolidate the Count Financial acquisition. That landmark transaction was officially completed on 1 October 2019.

In overall terms, CountPlus posted a net profit after tax (NPAT) attributable to shareholders of $5.95 million for the 12 months to 30 June 2020 compared to $3.68 million for the same period in 2019. On a reported NPAT basis, earnings per share increased to 5.37 cents, an increase of 61 per cent on the 2019 financial year (or 3.33 cents in the prior comparable period).

These numbers are welcome. However, even without the uncertainty of COVID-19, the Company's ongoing integration of the Count Financial business has some anticipated future challenges. These relate directly to the mandatory rollback (post the findings of the Hayne Royal Commission) of grandfathered rebates and platform commissions paid by product manufacturers to licensees. The cessation of such rebates is due to be fully enacted in the 2021 financial year.

In this respect, the Company is well on its way to mitigating a reduction of grandfathered commission revenues. Moreover, the planned shift towards embedding a 'clean' (user-pays, fee-for-service) licensee model within Count Financial has begun. Our focus has been on delivering a leading, client-centric value proposition to Count Financial member firms.

At the heart of this shift is a transparent and 'clean' fee model, created to drive a sustainable advice (not product) offer matched by a supporting, future-ready technology solution and robust business process.

Stronger balance sheet

Reflecting its strong balance sheet, CountPlus held net cash of $21.11 million on 30 June 2020, up from $8.5 million in the preceding period.

Furthermore, improvements have been made in other key financial metrics. Earnings from Associate Firms under the Company's Owner, Driver – Partner model rose to an encouraging $2.179 million, representing a 40 per cent increase on the same period for 2019. Firm average profit margins were maintained at 20 per cent for the period ending June 30, 2020.

Revenue per full-time employee at the firm level was maintained at $171,000 in the full year ending June 30, 2020 and was $175,000 in the same period a year ago. The contribution margin for these past three financial years is shown below:

Financial year ending June 30	Contribution margin achieved
2020	45%
2019	46%
2018	46%

Member firms proved consistent with the timely receipt of cash, recording an average of 83 days lock-up as 30 June 2020, remaining steady on the previous period (82 days) but pleasingly down from 94 days on 30 June 2018.

Is this positive metric for lock-up days sustainable during COVID-19? Our pragmatic response is that we expect to see some deterioration in payment terms for receivables as our Member firms support clients experiencing financial hardship.

Whilst we prudently make full provision for clients under financial duress, we may see an increase in provision for bad and doubtful debts in FY2021. Past bad debt experiences may not be representative of the impact of the COVID-19 pandemic on the broader economy.

Dividend payment

The Company is pleased to announce that it will pay a 1.25 cent per share fully franked dividend for the year to June 30, 2020. This represents a 25% increase in dividend payment on the previous period in 2019.

Industry at a glance

$4.7B Financial Advice Revenue	**Mature lifecycle**
$20.3B Accounting Revenue	**Low level of concentration**
19,554 Financial Advice Firms	**SMSF, Superannuation and retirement advice significant revenue segments across Accounting and Financial Advice**
34,731 Accounting Firms	**Remains an unmet need for Financial Advice**

Sector-wide headwinds ahead

As I have brought to your attention above, changes to 'old world' revenue models based on grandfathered commission payments are not only imminent, they have begun. The resulting pressure on the financial advice sector from this shift to a transparent fee-based model is significant.

In combination, the departure of major institutions from the advice arena, new education, and professional standards for financial advice practitioners as well as increasing regulation are also driving fragmentation of the traditional financial adviser proposition and business models. Data and technology also have a role to play here – competing to play effectively at this level requires scale, resources, and investment.

Additionally, the traditional financial adviser population in Australia has a succession problem: too few available entrants ready to succeed established operators that are exiting in large numbers.

Yet, the consumer demand for quality financial advice and services has not diminished. In fact, the supply side of the sector has an acute problem of being ill-equipped to meet rising consumer demand today and in the near future.

In this rapidly changing financial advice sector landscape, CountPlus stands ready to grasp opportunity and to grow its accounting-led business model.

The Company is expanding into financial advice through acquisition, growing to 18 the number of partner firms (up from 15) over the course of the 2020 financial year.

Count Financial

Count Financial pioneered the accounting-led financial advice model at its inception in August 1980. Now, 40 years on, the proud Count Financial brand and advice network is embracing a new era of delivering 'clean' client centric advice.

As I have mentioned above, this essentially means that Count Financial will no longer accept product rebates or commission payments made to the licensee. So-called grandfathered commissions and platform rebate revenues are banned from 2021– one of the consumer-focused results emanating from the Hayne Royal Commission.

For Count Financial this shift began on December 1, 2019 with the introduction of a user pays system for various business costs, borne by the financial adviser.

The 'clean' model also means that Count Financial and its member firms must pivot to charging a sustainable fee for their financial advice services.

Subsidy removals have resulted in a reduction in Count Financial Adviser numbers since 1 October 2019. Various Count Financial firms made decisions regarding their ability to continue to offer financial advice as a service under this revised model.

We are prepared. Much work has been undertaken in conjunction with our member firms to prepare for the 'new world' in financial advice. This includes detailed modelling of firm client revenue and all product payments to be redirected to clients by January 2021. Count Financial has also undertaken a 'deep dive' business diagnostic to focus on key drivers of success in professional practice and assist member firms re-purpose their value proposition.

While well advanced in our plans to move to the new world of adviser remuneration in 2021, we expect adverse impacts of this change to be felt in FY2021.

Count Financial is expected to continue to be profitable in FY2021, however a reduction in earnings in FY2021 (compared with FY2020) may take place as these important structural changes are embedded, and a future-ready client centric advice model takes shape.

The end of Favoured Nation payments

Shifting to a 'clean' licensee model means a transparent and open system of remuneration.

A previous "most favoured nation" agreement in place between Count Financial and CountPlus ceased from 1 October 2019. That past agreement saw CountPlus receive $1.2M per annum in FY2020 and FY2019 from Count Financial pertaining to select platform rebate payments.

On acquisition it was estimated that 60% of Count Financial revenue received was in the form of grandfathered commission and platform rebate payments that will cease in the 2021 financial year.

With the reshaping of the business under CountPlus ownership we calculate these grandfathered commissions and platform rebates came to $5.249M at FY2020, circa 47% of Count Financial revenue.

Small to Medium Enterprise

Australia's SME sector is the lifeblood for CountPlus partner firms. We remain vigilant to the potential risk that future COVID-related health directives may see further deterioration in economic conditions, particularly impacting our core SME client segment.

The impact of COVID-19 and the large scale move to remote working has negatively impacted our partner firm productivity, workflow systems and revenue during the months of March and April 2020.

Should additional Government-directed lockdowns occur, as happened in Victoria during early August, this may further negatively impact firm revenue and earnings.

In FY2020 some member firms qualified for government assistance in the form of JobKeeper, COVID-19 cash boost and payroll tax rebates, totalling $2.315 million ($1.549 million for subsidiaries and $0.766 million for associates). In FY2021 a reduced number of firms may continue to be eligible for further government assistance at an estimated amount of $0.267 million (nil for associates).

Whilst the largest component of firm revenue is recurring and compliance based, firms do provide advisory services and business coaching and this type of work may be at risk as economic conditions deteriorate and impact small business. This may have a negative impact on firm revenue and earnings in FY2021 and beyond.

Prudent

Underpinning our pragmatism in these difficult times is a high degree of prudent decision-making. Future opportunity for investment must be weighed against our thorough due diligence process, cultural alignment, and key performance metrics.

Growth opportunities will present themselves, however CountPlus believes the interest of shareholders are best served by a highly selective, strategic value approach to what is anticipated to be a buyer's market for quality advisers seeking a new licensee and aligned partner.

Prepared

Our preparedness for careful and considered expansion will bring further financial success in the 2021 financial year as we partner with firms that match the CountPlus "family photograph" and who share our unwavering client focus.

We have substantially bedded down the Count Financial acquisition. We will continue to make a decent profit, decently, by acting in the client's best interest, having a transparent fee for service arrangement, and delivering value and positive outcomes for clients.

CountPlus has in place the pre-requisites for prudent expansion. With a cautious approach to managing the risk of COVID-19 our goal to become Australia's leading network of professional accounting and advice firms is aided by the disruption affecting the financial advice sector.

CountPlus will prevail as we continue to align our member firms with the CountPlus vision through shared values, mutual success, and a strong sense of community.

Our successful Owner, Driver – Partner model, which governs the relationships between CountPlus and its high-quality accounting and advice firms, has at its core the principle of providing advice and services that are in clients' best interests.

Purpose and values matter a great deal to the people and communities that we serve, especially during times of stress. That is why I am delighted – amidst the challenging and difficult conditions wrought by the Coronavirus pandemic – to acknowledge a milestone of giving by the Count Charitable Foundation.

The Foundation surpassed $1.0 million in giving for the financial year to June 30, 2020. This is a new high bar for the Foundation, which was inaugurated in 2004 by Count Financial founder Mr. Barry Lambert

Among the honorable community support the Foundation has given, a key initiative this year was the combined donation of $100,000 to Lifeline to contribute towards the establishment of a new bushfire support line.

On behalf of the Board and executive team we thank our shareholders as we face a new set of challenges. We do this with resolve to overcome, with resilience, and an eye to a horizon that promises much.

Thank you for being a loyal co-investor in CountPlus.

Matthew Rowe
CEO and Managing Director

Head and Heart response to COVID-19

Unprecedented times call for unprecedented action.

When the nation went into lockdown in mid-March to avoid community spread of COVID-19, a new pandemic of uncertainty and fear was triggered. While Australia's frontline healthcare workers bravely worked to fight a rapidly evolving medical crisis, professionals battling the emerging economic crisis sparked their response.

For CountPlus One Principals Philip Grantham CPA and Margaret Munetsi CA these swirling circumstances demanded decisive measures to counter historically unseen levels of fear and confusion. The firm's mostly small to medium enterprise clients were struggling to make sense of their sudden circumstances and to navigate a slew of State and Federal Government economic responses to the Coronavirus.

JobSeeker, JobKeeper, the cash flow boost and an SME Guarantee Scheme were among the rapid-fire Federal policies requiring a level head and strategic brain. Clients' underlying fears of looming lost revenues, potential staff redundancies, and a chain of uncertain financial impacts for business and family balance sheets also demanded a wholly empathic and emotionally supportive response.

This urgent 'head and heart' client need naturally shaped the team's coordinated response.

Phillip took the lead on unpacking the detail of various assistance packages and matching them to clients. Working remotely, cloud-based software helped him identify clients eligible for assistance. He proactively approached every client offering guidance and support to lodge applications, make sense of existing Government policies, and keep clients updated on any shifts in the criteria.

Phillip says: "Many of our SME clients in lockdown were presented with a very difficult make or break challenge. We set about clearly unpacking the support on offer and adjusting businesses to suit. Along the way guiding them on potential redundancies, rent relief, Corporations Law and Tax Office obligations."

Meanwhile Margaret was busy communicating with her contacts, checking in, arranging webinars and support to affected clients. She approached an expert in Human Resource management and workplace law to potentially help other SME clients. Together with Phillip, Margaret also arranged for a client to give tips on mental resilience, stress, and similar helpful topics for the benefit of their clients.

"That led to a series of webinars, where anyone, client or not, was welcome to join us. It was a fantastic spirit of 'let's just support one another, ask the difficult questions, find the answers, and if we can't find the answers don't leave it hanging.

"Nobody was going to slip through the cracks. That's how determined we were". The effort has created enduring pathways measured both in commercial and very pragmatic humanistic terms.

"These are difficult times for us all, but it has also proven the power of resilience and innovation when challenge is thrust upon us," Margaret says.

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