Quality Partnerships, Leading Advice

CEO Letter
Matthew Rowe

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ASX announcement

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

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Dear **shareholder**

I am pleased to report on the Company's continued progress in the half year to 31 December 2020.

A dominant theme for this reporting period is an ongoing caution concerning the impact of the global coronavirus pandemic, balanced with considered optimism.

CountPlus has in place the capital, talent and processes to focus on selective growth in its chosen markets with deliberate assessment of risk and opportunity.

It is pleasing to report both the resilience of the CountPlus financial position and the continued improvement in the operations of Count Financial.

As the 2020 calendar year taught us, we must remain alert to the emergence of unknown risks and to also be ready to mitigate known risks. Nobody could foresee the terrible global impact of the COVID-19 pandemic that marked most of the 2020 calendar year.

Everyone can now see the benefit of strong business foundations, of relying on core values, robust processes, of taking care of others in our communities, and remaining vigilant to new opportunity, with an eye to further potential downside risks.

CountPlus sees measures of risk and opportunity on the horizon across the full spectrum of our activities and within the uncertainties of overarching global, domestic and industry economics.

I am pleased to address the latter in some detail in this CEO Letter.

Strong **balance sheet**

Key financial numbers for the 1H21 period demonstrated a pleasing upward trend. Earnings, profit and cash at hand each increased on the prior (1H20) period. Excluding government assistance to our firms EBITA was $6.176M which represents an increase of 21% on prior year.

It should be noted that the CountPlus parent entity received $165,000 of jobkeeper. The remaining jobkeeper funding was paid to partner firms, being small business entities with employee shareholders. These firms suffered operational disruption during the COVID pandemic and jobkeeper enabled the retention of employees and assisted these firms to navigate the challenges created by the pandemic. The impact of COVID-19 remains a watching brief for CountPlus and our partner firms. We remain vigilant to the potential risk that future COVID-19 related health directives may have on our core SME client segment. We have taken a prudent approach to provisioning for work in progress and accounts receivable and have increased our level of provisioning compared to pre-pandemic levels.

Net profit attributable to shareholders was $4.082M or a 65% increase on the $2.472M result from the same period last year. Likewise, cash at hand to CountPlus increased by 37% against the 2020 first half result, boosting available cash reserves to $27.638M.

The results represent steady ongoing financial improvement, delivered by disciplined financial controls, diligent operational process, and a focus on deliverables in core businesses.

The Company also managed six tuck-in acquisitions throughout the six months to 31 December 2020. The build out of the Company's Merger & Acquisition (M&A) capabilities and process, and the execution discipline of the M&A team, signals our intent for strategic growth.

Complementing our capacity and balance sheet strength are the additional levers of scale and client-centric culture. Maintaining and optimising these elements are a constant internal focus for the Company and its executive team. Selective growth provides scale benefits. Balance sheet strength in turn provides financial capacity to attract and retain high-quality additional firms and advisers to CountPlus and Count Financial. The culture of client-centric focus within the Company, our partner firms and associates is a universal benefit that we prize, nurture and protect.

New entrants to the combined CountPlus community join a cohort of firms operating at strength through shared best practice. The Owner, Driver – Partner model is working as it should to encourage and enable passionate, proactive involvement from the talent in our firms.

The Count Financial network, though purposely fewer in number today than when acquired by CountPlus on 1 October 2019, is delivering improved earnings and profitability – due in large part to identifying and removing inefficient or untenable past practices and flawed economic models.

We have seen early gains from our combined efforts. Count Financial made headway during this 1H21 period increasing its earnings to $1.601M (EBITA) or a 74% increase on the prior corresponding period of $0.926M. However, it must be noted that 1H21 saw the end of grandfathered revenue part way through this reporting period. We expect this transition to negatively impact earnings in 2H2021. The executive team is focused on recruitment of quality advisers to our 'clean' model and the continued improvement of Count Financial operations, focusing on the efficient and sustainable delivery of financial advice by partner firms.

As a further solid reflection of maintained Company discipline, average profit margin for CountPlus partner firms remained steady for the 1H21 period at 20% after the exclusion of Federal Government payments.

Another pleasing result was lock-up, or the statistic we use to track the number of days from a professional firm starting a job, completing it, invoicing and being paid. This 'cashflow health indicator' remained steady at 81 days, a commendable achievement given the impact of lock downs on small to medium sized businesses in predominantly key eastern States like Victoria, Queensland and NSW battling second wave infections of the virus.

The Company has built a position of relative market strength, and is now poised for further strategic, measurable growth.

Dividend payment

CountPlus is pleased to announce that it will pay a fully franked 1.25 cents per share dividend for the first half of 2021. This is consistent with the dividend paid in the prior (1H20) year.

The Company is targeting a dividend pay-out ratio of 60% to 90% of maintainable net profit after tax attributable to CountPlus shareholders.

This important financial milestone is a welcome outcome to the Company's adherence to a simple underlying operational philosophy: focus on values-based culture, build leaders and talent in our firms, have robust systems and disciplined processes in place, and a consistent, conservative approach to build a better CountPlus.

Core-Related Strategy

The Company has built a position of relative market strength, and is now poised for further strategic, measurable growth.

Part of this strategic endeavour for CountPlus is to look to traditional places for growth – aligned advice and accounting/advice firms and practitioners. However, we are also looking further afield for investment and growth opportunity in what we describe as 'core-related' businesses or adjacent service lines.

This may mean, for example investment into value chain activities (like information technology) that directly and positively impact our core firm activities and earnings drivers.

Investment into activities with a regulatory aspect, or that enable or enhance core firm activities, are a key and important element in this strategic approach.

Opportunity in Financial Advice

'Building a better CountPlus' paraphrases our collective journey to date. It is also our mission ahead. Risk is abundant during these times, but we aim to address risk through implementing a conservative, systematic and process-driven model.

Opportunity derives from many sources: industry aggregation; the flight of fewer remaining 'institutionally-owned' advisers to quality homes; unmet consumer demand for high-quality advice; the increased use of digital technology for efficiency, client centric advice; and the overdue changing of the guard in terms of grandfathered revenue, product commission structures and portfolio administration margins that for too long characterised past industry practices and favoured the economics of conflicted product distribution models.

The opportunity that captures much of our current attention is the fundamental re-writing of the economic model upon which sustainable, consumer-focused and regulatory compliant financial advice will prosper in Australia.

Better foundations are being laid to address this structural challenge and opportunity in Australia in 2021 and beyond. CountPlus stands ready to lead in this respect: to respond and adapt rapidly to each of these specific and interrelated opportunities for growth.

Sustainability is paramount, in contrast to the product subsidy priority of the sector's past industry practice.

Some two decades ago the arrival to the wealth and advice sector in Australia by institutional (bank) owners prompted a race to the bottom. In building market share via product 'sales and distribution' channels, losses were incurred in running unprofitable advice business units. In other words, offsetting losses on advice against upstream profits made on product (investment and insurance products).

Today, we have witnessed the legacy of these untenable industry stress points: the exit of large banks from financial advice, the concurrent rise in regulation and the scrutiny of a Royal Commission, the uplift in education and ethical standards, fewer adviser numbers and gaps in the supply side of advice relative to the number of Australians seeking advice.

However, with institutions having mostly exited the vertically integrated (bancassurance) model of advice, the remnants of their institutional influence on the economic models of advice are also being dismantled and leaving 'clear air' for a better way. This 'clear air' will also enable technology solutions to flourish as advice businesses are disentangled from institutional bureaucracy and allowed to think outside the square.

Moreover, focus on specific legacy issues – like transparency in the pricing of the risk of advice failures and poor practice – has become prevalent. Where once cases of advice malpractice or failure were borne by the shareholders of the institution without substantive cost to the adviser, the holistic 'safety net' must now be priced into a user pays approach. Transparency in liability and risk pricing is a significant move forward in order to create a cleaner, more functional advice (not product) licensee and user pays advice structure.

The Company believes the emergence of new, sustainable models will take root or be allowed the space and opportunity to flourish. This market opportunity view is shared by several expert market observers and analysts.

US-based management consulting firm Oliver Wyman in its recent (January 2021) research report '*Future of Financial Advice*' characterised the opportunity for local market participants to embrace a 'Renaissance' period for advice in Australia, despite some external perceptions of a collapse or at least fracturing of the sector.

For, as the Oliver Wyman report authors' foreword said: '*the current period represents an opportunity for rebuilding a sector that better meets customer and regulatory outcomes and is economically sustainable.*'

CountPlus is doubling down on advice during this time, not retreating.

Count Financial **leaner, smarter.**

A leaner, smarter Count Financial (Count) is driving hard towards its goal of being the natural 'clean' advice model for quality financial advisers. The business is experiencing fewer headwinds, with positive signals for growth.

Overall adviser numbers have been reduced – deliberately – as Count Financial aligns its value proposition towards the 'clear air' for financial advice described above, the benefits of discipline and focus are being observed.

In terms of known roadblocks, Count Financial has entered a period of cessation of grandfathered commissions and product rebates, and the start of a wholly fee-based and user-pays model. Historically, these grandfathered commissions and product rebates have represented 47% of Count Financial revenue. As outlined above, this is a necessary and purposeful shift. The transition is now fully integrated in our operating model with our firms and this shift may have a negative financial impact in the second half. We are focused on mitigating this earnings shift, in the medium-term, through growth in quality adviser numbers and continued efficiency gains.

Some efficiency yields are already evident. For example, Count Financial halved the amount of time taken to produce client advice documents compared with a year ago. The number of advice documents produced has in fact increased by 37% between the same period, and the business recorded a 73% increase in advice documents produced per financial adviser.

All this while Count Financial adviser numbers fell (from 284 on 31 December 2019 to 238 on 31 December 2020).

However, the Company expects a further 40+ advisers to join the revamped Count Financial business in the second half of this financial year. We have a strong pipeline of 100+ potential new advisers seeking to join Count Financial.

We know that demand for quality, efficient advice is not diminishing. As the challenges of the pandemic continue to drive client inquiry and assurance, household wealth across Australia continues to grow.

At a macro level, financial advisers will seek to service both an aging population and those involved in the intergenerational wealth transfer occurring throughout Australia.

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Continuing **strategic growth**

The Company has identified several key opportunities evident in current market dynamics for which it is equipped to leverage.

These include:

- The ability to invest in underlying earnings of core firms that generate revenue through the delivery of client-centric accounting and financial advice;
- The ability to 'tuck-in' client fee revenue purchased from smaller firms. Tuck-ins have been highly earnings accretive for partner firms and in the large part have been funded from available cash and the deferred consideration structure, i.e., where consideration is paid over an agreed number of years based on client fee retention hurdles;
- Create a logical home for quality advisers to join Count Financial and generate earnings through our 'clean' licensee leverage model;
- Investment into core-related activities that are concerned with inputs / outputs (downstream) into core firm related activities. These investments will have a subscription style revenue or margin share style revenue.

Thank **You**

CountPlus has proven its ability to act and resilience to the unforeseen stresses of the global pandemic, the consequential domestic economic challenges and to the direct industry risks mentioned in this letter.

CountPlus will thrive as we continue to align our people, partner firms and new business acquisitions with the CountPlus vision of shared values, mutual success, and our strong sense of community.

Thank you for your support as a shareholder in CountPlus.

Matthew Rowe

Matthew Rowe
CEO and Managing Director