Easton Investments Limited
ABN 48 111 695 357

Level 2, 115 Pitt Street
Sydney NSW 2000

T: 1300 655 695 or +612 9221 6666
E: info@eastoninvestments.com.au

eastoninvestments.com.au

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2016/17 Full Year Results

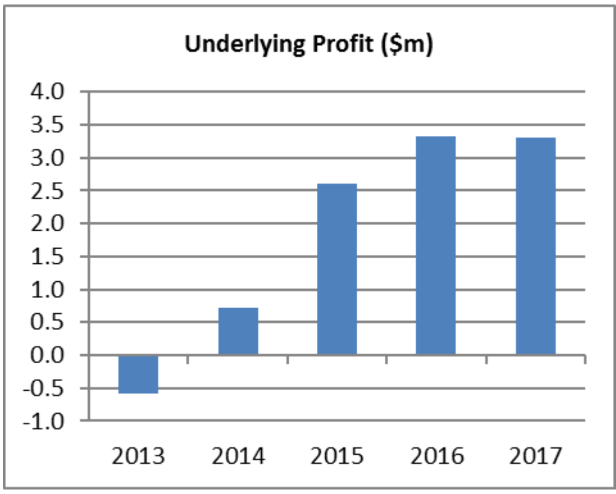
Easton Investments Limited (**Easton** or **the Company**) releases its results for the 12-months ended 30 June 2017.

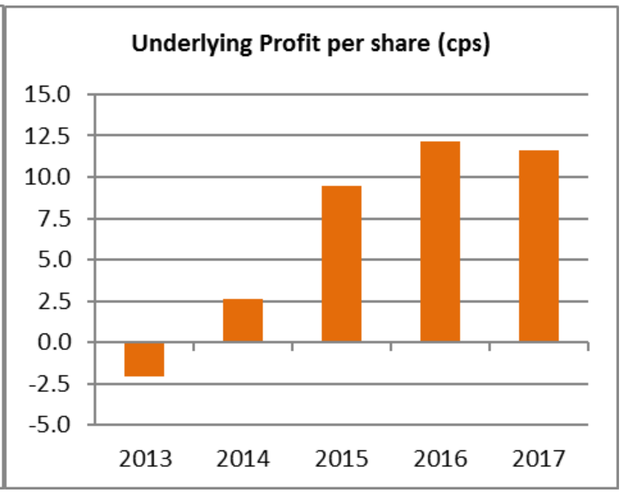
Earnings Performance

Statutory Profit[1] of $1.48m (2016: loss of $0.35m).

Underlying Profit[2] of $3.31m (2016: $3.33m).

Directors consider Underlying Profit to be the preferred measure of earnings performance over the period.





The operating result is considered by Directors to be an excellent outcome.

Notably, the Company's continuing businesses, including its strategic investments, delivered strong organic growth during the year, with their combined contribution to Underlying Profit increasing by 75%.

This organic growth, together with the initial contribution from the Panthercorp business (acquired 31 August 2016), has almost fully compensated for the decrease in earnings following the divestment of the Chesterfields business (sold 30 October 2015) and the loss of the Harmony Distribution Agreement (terminated 31 August 2016).

[1] Statutory Profit is Net Profit after Tax.

[2] Underlying Profit is Normalised Earnings before Interest, Tax and Amortisation. Underlying Profit is a non-IFRS measure and is used by the Company to assess performance as it excludes non-cash amortization, share based payment charges and one-off or non-operational items.

The improvement in Underlying Profit was particularly evident in the 2nd half result, where a 24% increase was achieved over the previous corresponding period despite the negative impact of the two factors referred to immediately above, which have effectively been offset by a combination of organic and acquired growth.

Underlying Profit	2015/16	2016/17	Increase / (Decrease)	Comments
	($m)	*($m)*	*(%)*	
1st Half	1.68	1.27	(24)%	Progressive improvement in earnings over the year.
2nd Half	1.65	2.04	24%	
Total	3.33	3.31	(1)%	

Underlying Profit per share has fallen slightly to 11.6 cents (2016: 12.1 cents) as a result of performance shares issued pursuant to the Company's employee share plan.

Operating Highlights

Key achievements during the financial year were as follows:

- Completion of 6 new Referral Rights Agreements (**RRA**s), bringing the total number of RRAs in place to 14 at balance date. Income recognition of the RRAs is spread over 18 months with $0.80m of deferred revenue held at 30 June 2017, which will be recognised over 2017/18 and the following 6 months. Importantly, the existing and new RRAs are expected to also provide on-going, recurring revenue over coming years, which is expected to increase in line with the anticipated growth in the underlying advisor businesses.

- Commencement of the Limited Authorisation service for Accountants (**LAR**s) on 1 July 2016, resulting in Easton now managing one of the largest accounting distribution networks in Australia, with continued growth expected.

- Growth in RRAs (fully authorised advisers) and LARs (limited authorised accountants), which both operate under Merit Wealth's AFSL, together contributed to strong earnings growth in Merit Wealth. The number of advisers and accountants operating under the Merit Wealth AFSL are expected to continue to increase going forward, with one-off income from RRAs being progressively replaced by recurring commission income.

- Strong organic growth in our continuing businesses, as well as our 2 strategic investments (First Financial and Hayes Knight NSW), with Knowledge Shop continuing to grow its subscriber base at a consistent rate in line with previous years and where significant potential exists for growth in online training. More generally, other Easton businesses have benefited from Knowledge Shop's prominent position in the accounting sector, with further scope for cross-sell and leverage going forward.

- Purchase of the Panthercorp full service, corporate documents business and moving to a controlling interest in Law Central, an online documents business. Law Central reported a small loss for the year and has been restructured post year end with a view to achieving improved profitability through a lower cost structure and the expectation of higher revenue from a closer operating relationship with the Knowledge Shop business and the related membership base.

Important Strategic Acquisition

As announced to the ASX on 14 August 2017, the Company expects to complete the acquisition of the GPS Wealth business (**GPS Wealth**) by the end of August 2017.

GPS Wealth is a specialist AFSL licensee, providing financial services solutions nationally to financial planning businesses (where advisers operate as Authorised Representatives) and accounting firms (where accounting professionals operating as Limited Authorised Representatives (LARs)).

The core services are similar to the support services provided to advisers and accountants by Merit Wealth. The opportunities to integrate certain operations and achieve cost and revenue synergies going forward are considered to be significant.

GPS Wealth and Merit Wealth together have approximately 140 advisers and more than 400 LARs, with funds under advice in excess of $3.4 billion and annual risk premiums of $48 million. Licensed practices and aligned businesses have client relationships with more than 6,000 SMSF.

The consideration for the 100% equity interest in GPS Wealth of $20.0 million is to be satisfied by 50% cash and 50% Easton shares at an issue price of $1.55 per share. The purchase price is based on forward normalised earnings before interest, tax and amortisation of $2.5 million. This earnings rate will not be achieved until the 2nd half of 2017/18 due to the timing of identified and agreed cost savings. Additional cost synergies are expected to be achieved during 2017/18, increasing the earnings rate to $3.0 million in the following financial year.

Directors believe the GPS Wealth acquisition to be transformational in many respects as it repositions Easton with enhanced scale and prospects, as well as providing the Company with a significant up-lift in earnings, with Underlying Profit per share estimated to rise by approximately 50% after allowing for cost savings and synergies expected to be realised over the next 12 months.

Financial Position

At balance date, the Company is in a sound financial position with cash of $2.64 million and no borrowings. This position was underpinned by strong cash flow from operations and continued tight control of corporate overheads during the year.

Subsequent to balance date, the Company completed the acquisition of 51% of GPS Wealth, involving an up-front cash payment of $4.6 million, together with the issue of 3,268,406 Easton shares. A further, final cash payment of approximately $0.5 million in relation to this 51% interest is expected to be made in early September 2017, subject to remaining conditions precedent being satisfied.

As noted above, the Company expects to complete the acquisition of 100% of GPS Wealth by the end of August 2017.

Bank borrowings, together with surplus cash held by the Company over and above its working capital requirements, have been applied to fund the up-front cash payment. Additional bank borrowing will be used to fund the balance of the cash consideration payable in relation to the GPS transaction.

Outlook

Directors are confident that Easton will resume its earnings momentum over the next 12 months and beyond.

Directors expect strong earnings growth in 2017/18 on the back of the acquisition of GPS Wealth and the anticipated earnings contribution from that business as referred to above, together with continued organic growth in continuing businesses.

Knowledge Shop has a training capability which allows a blend of face-to-face, live webinars and pay-on-demand training. This expanded training capability should accelerate earnings growth from this area of the business.

Merit Wealth will benefit over the next 18 months from the recognition of deferred income ($0.80m) held against RRAs entered into in the prior period.

At the same time, the number of RRAs and LARs (**licensees**) operating under Merit Wealth's AFSL is expected to continue to grow over the next 12 months. A substantial increase in recurring income from RRAs and LARs is expected in line with a full year contribution from existing licensees, together with the anticipated growth in the number of licensees.

The Company's two document businesses, Law Central and Panthercorp, are expected to make an improved contribution to earnings in the 2017/18. In the case of Panthercorp, a full year contribution will support higher earnings, while Law Central is expected to benefit from the restructuring referred to above.

Directors note that earnings from these and other Easton businesses are heavily weighted to the 2nd half, being broadly consistent with the 2016/17 earnings performance.

More generally, with a relatively high level of internal leverage and with an increasing utilisation of online delivery, our businesses overall should provide ongoing revenue growth and increased earnings over coming years.

Whilst the Company will continue to investigate and assess acquisition opportunities over the next 12 months, the primary focus will be on consolidation and organic growth given the earnings potential from synergies, business improvement, integration and internal leverage.

Other Information

The following information has been released to the market:

1. Annual Report for the 12-months ended 30 June 2017;
2. Appendix 4E for the 12-months ended 30 June 2017; and
3. 2016/17 Full Year Results presentation dated 23 August 2017.

Greg Hayes
Managing Director
Ph. 02 9221 6666
Mobile 0419 298 536
Email greg.hayes@eastoninvestments.com.au