



**CHAIRMAN'S ADDRESS & CEO UPDATE  
2018 ANNUAL GENERAL MEETING OF CLASS LIMITED  
15 OCTOBER 2018 AT HILTON SYDNEY**

**Introduction**

Good morning ladies and gentlemen. I am Matthew Quinn, Chairman of Class, and it is my pleasure to welcome you all to our 2018 AGM.

It is now 3:00pm, and as the necessary quorum is present, I declare the meeting open.

**Welcome**

I would like to begin by introducing my fellow directors – Chris Cuffe, Kathryn Foster, Rajarshi Ray, Nicolette Rubinsztein and Kevin Bungard, who is also the CEO.

Members of the Class executive management team are also here:

- Glenn Day, Company Secretary & Chief Financial Officer
- Glenn Poynton, Strategic Alliances Director
- Panos Alexandratos, Chief Operating Officer
- Lilian Keaty, Marketing Director
- Joel Smith, Sales Director, and
- Jacqui Levings, HR Director

Ebby Carson, our Investor Relations Manager, is also present.

In addition to asking questions at the meeting, you will also have the chance to meet and talk to the directors, our CEO and the management team in a more informal environment following the meeting.

I would also like to welcome Matthew Leivesley from Grant Thornton, our auditors, who will be available to answer any questions on the audit.

Matthew will also act as scrutineer to oversee fair and proper procedures on the collection of shareholder votes.

**Voting Procedures**

I would now like to summarise the voting procedures for this meeting.

As a significant number of our shareholders now vote by proxy, the Board considers it appropriate to recognise the votes both of those shareholders present today and those who have voted by proxy.

Accordingly, I will not call for a show of hands on each item. Instead, items set out in the Notice of Meeting will be put to a poll. I will now open the poll and ask you to place your voting card in the boxes that will be brought around during the meeting.

If you need to leave early you can place your card in one of the boxes at the registration desk outside.

If you need assistance with completing your polling card, please ask one of the Link Market Services staff members at the registration desk.

Class directors and executives identified as key management personnel will not be voting undirected proxy votes given to them for items 2, 3, 4 and 5.

On all items of business, where undirected proxies have been given in favour of the Chairman, I will be voting those proxies in favour.

You may cast your votes at any time from now until the close of the poll.

A representative of Link Market Services will act as returning officer for the purposes of conducting and determining the results of the poll.

Later in the meeting, the proxy results will be displayed on the screen behind me. The results of the poll will be released to the ASX and the Class website as soon as they are available.

When we get to the formal part of the meeting and the resolutions, I will invite the director standing for re-election to address the meeting.

We will then take questions from shareholders on all resolutions.

Please note only persons holding yellow or blue admission cards are entitled to ask questions and visitors holding a red card are not eligible to vote or speak.

## **Results**

Our CEO, Kevin Bungard, will cover the financial and operational results of Class in his presentation. Before handing over to Kevin, I would like to highlight a few achievements from the past year.

As reported in our September Shareholder Update, Class passed the 170,000 total account milestone last quarter, this is an increase of over 86% since our IPO in December 2015.

Class achieved a 9% increase in NPAT to \$8.7 million for the year ended 30 June 2018, a good result given the significant disruption to our business caused by the Federal Government's Super Reforms, which led to slower adoption of new technology by the SMSF accounting profession and required us to spend approximately \$2m on the development of Class Super to ensure our customers comply with the new reporting requirements.

The key to success and increasing market share in the SMSF space is to continue to invest in product development to create solutions for accountants and advisers that make their business more efficient and profitable. The Super Reforms caused a great deal of distraction and required a compliance focus, however this is now behind us and we can get back to purely focusing on innovation and product leadership.

Accountants rated Class Super #1 for Highest Overall Client Satisfaction and #1 for Value for Money in the 2018 Investment Trends SMSF Software Awards again this year, making this the fourth year in a row that Class Super has won overall first place in these independent survey-based awards.

Accounts on Class Portfolio had grown by 83% to 5,949 at year end, with 31% of Class Super subscribers now also using Class Portfolio. We believe there is a large opportunity in the portfolio administration space and we continue to invest heavily in the product, including

developing deeper integrations with financial planning tools and enhancements for multi-disciplinary practices.

This year we have significantly invested in a new team led by Glenn Poynton, to grow partner revenue beyond the 4% that it currently contributes. Glenn also leads our engagement with the financial planning segment, leveraging Class' capabilities to help financial planners be more productive and profitable.

Sadly, our fellow director Tony Fenning passed away in April. Tony made an invaluable contribution to Class and his knowledge and professionalism will be missed both here and across the wider industry.

## **The Future**

We have a clear strategy to deliver long term success and remain positive about the growth of the business moving forward. We remain focussed on growing our market share in both cloud based SMSF and non-SMSF wealth accounting software.

We would like to thank our 1,400 customers, and to reconfirm our commitment to building market leading software solutions, enabling you to provide superior service to your clients and grow your business.

To my fellow directors, the Class executive team and employees, thank you for your hard work and dedication to the company.

And finally, thanks to our shareholders for your continued support.

I'll now hand over to Kevin.

## **CEO Update – Kevin Bungard**

I'd like to add my thanks to those of Matthew's to the shareholders, customers and the fantastic team that I have the pleasure of working with.

I'd also like to acknowledge the board for their continued support and commitment to Class. I'd like to personally acknowledge the contribution Tony Fenning made on the board and the assistance he provided to me during his time with Class. He will be sadly missed by the team.

## **Slide 6 – Strong Revenue Growth & Profit Margins**

The fundamentals of the Class business model are strong despite industry disruption caused by the Super Reforms.

Our FY18 revenue was up 18% compared to this time last year, driven by the addition of over 25,000 net new accounts for the financial year.

This result flowed through to the profit line with a 14% increase in EBITDA.

The increased investment in product development made over the last couple of years did see a larger impact from amortisation and this led to a more modest 9% increase in NPAT to \$8.7m, a net profit margin of 26% and EPS growth of 8%.

*Note: we have switched to using ARR rather than ACMR when talking about annualised recurring revenue – it is still measured the same way. The ARR term is clearer and is seeing broader industry usage.*

### ***Slide 7 – Success in a Challenging Year***

FY18 was a very successful year overall with net new accounts growing by +18% and we had record growth in the December and March quarters. As Matthew noted, growth in the September quarter saw us pass the 170,000-account milestone.

The challenges last year were:

- Super Reform restricting growth in the September and June quarters, historically our “peak periods”; and
- As previously advised, AMP is migrating off Class Super and their suspension of funds reduced net growth by ~2,700 accounts

Excluding AMP, the FY18 new account adds were over 28,000, down ~10% on FY17. Net new accounts were 25,469.

The message is clear; when the industry is not wrestling with regulatory change, we continue to win accountants to the Class software platform.

### ***Slide 8 – High Customer Satisfaction, Recurring Revenue***

Our continued market leadership in customer satisfaction and value for money, mentioned by Matthew earlier, are reflected in our retention rate which remains above 99.5%.

This retention rate is ex-AMP which, as mentioned previously, are migrating off Class Super. At the end of September, AMP had ~7,100 funds on Class and they accounted for just over 3% of our recurring revenue.

Our excellent customer retention underpins an annualised recurring revenue of \$36.0m, up 17% compared to last year.

### ***Slide 9 – Addressable Market Growing***

A recent report by KPMG estimates the number of SMSFs will grow to over 740k funds by 2023.

The \$1.6m balance transfer cap and contributions limits will limit the future dollar inflows into SMSFs and pensions, but for most people a \$1.6m member balance is still aspirational and the cap alone will not significantly limit the establishment of future SMSFs.

Of course, future political decisions, the Royal Commission and a Productivity Commission report into Superannuation all have potential to alter the SMSF landscape and will continue to create some uncertainty across the industry over the next several months.

Despite the slow industry growth, the organic growth of our established customers is another significant factor which will drive growth in the coming year.

In FY18 Class users won market share from their peers and outgrew the industry rate by more than 2.5 times – our established clients (excluding AMP) grew an average of 6.5% in the year compared to an industry growth rate of 2.5%. Existing customers contributed over 20% of our new funds.

Class does not currently service the dedicated group of trustees administering their own funds and we do not expect this to decline in the same way that we expect the Excel accounting firms to do. The Super Reforms and better services from accountants have seen a small drop in the number of these accounts over the years.

The small decline in DIY, along with the overall industry growth means that since Class Super was launched in 2009, the remaining addressable market that Class can win has grown and, despite our 27% market share today, there are still over 350,000 SMSFs for Class to win ...more than the 320,000 than there was in 2010!

### ***Slide 10 – Winning Across Addressable Market***

Even with the industry disruption, Class was able to expand its SMSF market share by +3% across FY18 ...total share is now over 27%.

All providers are in a fiercely competitive land-grab for the estimated 200,000 SMSFs still to migrate to the cloud.

“Fee holidays” are the main incentives being offered.

Our focus is to win in this environment is:

Firstly, converting as many of the 200,000 desktop funds as we can, as they migrate to the cloud.

These late majority clients have required us to build out our database of prospective firms rather than relying on conferences and industry media, and to move to more targeted marketing.

We are also focusing development efforts for these clients on improving the customer experience, automation and ease of use.

Secondly, capture as much as we can of the 10% “Other” segment as it declines to 0% over the next few years.

Dealing with the complexities of tighter caps and limits and the demands of event-based reporting are proving to be key concerns for this audience.

Lastly, increasing our cloud-to-cloud wins; this is at 17%, up from 4% a year ago.

These existing cloud customers have different needs to the remaining desktop firms – they are actively looking for efficiency and growth areas for their practice, they are looking to provide family office and whole of wealth services. Class provides them the ability to broaden their wealth services outside just SMSF.

These firms are often multi-disciplinary firms or working closely with financial advice partners; the need for integration with products like XPLAN and Midwinter is critical to the services that they are offering.

Class is well positioned to capture remaining SMSFs across the entire addressable market and we have the product, resources and processes to execute this strategy over FY19 and beyond.

### ***Slide 11 – Class Portfolio Growth***

It is encouraging to see Class Portfolio acting as an incentive for winning existing SMSF firms to Class Super. It is a strong validation of our commitment to broadening our wealth accounting platform outside Super.

Class Portfolio gained significant traction with growth in accounts up 83% over the year.

We continue to see an increase in the cross-sell of Class Portfolio into the existing Class Super user base with 31% of those customers now using Class Portfolio for trusts and other personal investments outside super.

The average number of Portfolio accounts per customer continued to increase to over 14 accounts.

### ***Slide 12 – Portfolio Potential and Addressable Market***

The potential market for Class Portfolio is larger than super in terms of dollar value and number of investors. This market is largely under-developed – the main competitor in this space is Excel and practice ledgers. Traditionally, accounting practices have not treated wealth accounting for trusts, investment companies and individuals as a specialisation, the way that they have SMSFs.

Class expects that more firms, particularly multi-disciplinary practices will, over time, expand and better automate what they are doing in the wealth accounting market; especially given the caps on SMSFs introduced by the Super Reforms.

As more firms seek efficiency and growth for their practices, they will look to provide family office style and whole of wealth services. Class Portfolio provides the technology platform needed to achieve those goals. As we demonstrate and promote how to leverage Class Portfolio across our client base, and as we roll out new features, especially those aimed at better connecting the planner and accountants, we expect usage of Class Portfolio to continue to increase.

### ***Slide 13 – Strategic Alliances Program***

Better connecting the planner, accountant and investor is also one of the goals of our Strategic Alliances Program.

We are making investments in APIs and our partner ecosystem to generate partner revenue share beyond the 4% that it contributes to revenue today.

We are looking to broaden the partner products offered and, where appropriate, we are exploring opportunities to form strategic alliances or make acquisitions in adjacent markets. These initiatives are expected to contribute to earnings in late FY19.

### ***Slide 14 - Summary***

Thank you, I will now hand back to Matthew for the formal part of the meeting.