



CHAIRMAN'S ADDRESS & CEO UPDATE
2017 ANNUAL GENERAL MEETING OF CLASS LIMITED
16 OCTOBER 2017 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 2017 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 who are here today – Tony Fenning, Kathryn Foster, Rajarshi Ray, Nicolette Rubinsztein and Kevin Bungard, who is also the CEO. I would also like to acknowledge Chris Cuffe who is standing for election today but can't be here in person.

Members of the Class executive management team are also here:

- Glenn Day, Company Secretary & Chief Financial Officer;
- Panos Alexandratos, Chief Operating Officer;
- Lilian Keaty, Marketing Director;
- Joe Nalewabau, Chief Product Officer;
- Joel Smith, Sales Director; and
- Tiffany Nicholl, HR Director.

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 who 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 5, 6 and 7.

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 directors standing for election or re-election to address the meeting.

We will then take questions from shareholders on all resolutions.

Please note only persons holding yellow or red admission cards are entitled to ask questions and visitors holding a blue or green 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 recent developments.

As reported in our September Shareholder Update, Class passed the 150,000 account milestone last quarter, a significant achievement and an increase of 56% since our IPO in December 2015.

Class achieved a 37% increase in NPAT to \$7.9 million for the year ended 30 June 2017.

In addition to increased profit and a record 31,503 new accounts added to the platform last year, our market share of SMSFs increased from 19% to 24%. Market share at the end of the September quarter has increased again to 25%.

Continued investment in product development has been rewarded with significant industry recognition, with Class winning the:

- 2017 SMSF Adviser SMSF Software Provider of the Year Award; and
- the Core Data 2017 SMSF award for SMSF Accounting Software/Administration.

Both for the fourth year running.

Class was also recognised on the 2017 AFR Most Innovative Companies list last month, placing 40th out of over 1,000 entries.

As well as significant investment in Class Super, we continue to invest in Class Portfolio with additional staff and resources allocated to its development. Class Portfolio accounts grew by 12% last quarter, with 28% of Class Super customers now also using Class Portfolio.

The Future

We remain focussed on growing our market share in both cloud based SMSF and non-SMSF wealth accounting software.

We would also like to thank our 1,200 customers, and to reconfirm our ongoing commitment to further developing our products to make your businesses more streamlined and profitable.

To Class employees, congratulations on another record-breaking year and thank you for your dedication to the company.

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

I'll now hand over to Kevin.

CEO Update – Kevin Bungard

I'd like to add my thanks to those of Matthew's for the shareholders, customers and the great team of people that I have the privilege to lead. I'd also like to thank the fantastic, knowledgeable and dedicated board that Matthew chairs, for their efforts.

Slide 6 – Strong Revenue & Profit Growth

In what has been a challenging, transitional year for the Superannuation industry, it is great to be able to report that Class has continued to deliver strong growth in revenue and profit, despite the impact of the biggest Super Reforms in 10 years.

Revenue is up 28% driven by a record increase in the accounts administered on Class.

The business continues to benefit from economies of scale.

This resulted in an improved bottom-line with a 39% increase in EBITDA and a 37% uplift in net profit after tax.

The EBITDA margin expanded from 45% to 48% demonstrating the scalability of our business model.

Slide 7 – Strong Growth in Class Super Accounts

As noted, the revenue increase resulted from a record number of new accounts being administered on Class. As Matthew mentioned, we added more than 31,000 new accounts last year, the vast majority of those were SMSFs.

The Class Super product continues to power our growth and the team produced a fantastic result in the face of significant industry disruption.

Slide 8 – High Client Satisfaction, Recurring Revenue

Of course, whilst winning new clients, it is important to retain your current ones.

As well as the other awards that Matthew mentioned, Class continues to be the most highly-rated solution in terms of client satisfaction. This has helped maintain our high retention rate, 99.5% at the end of September, and underpins significant recurring revenue for the business.

AMP, through their SuperConcepts business, is a long-term client that now owns a competitive software solution. AMP represents ~6% of our recurring revenue. They have flagged that they intend to migrate off Class at some point but no timeframe has been specified.

Slide 9 – Increased SMSF Market Share

Class' high retention rates and new account growth have contributed to the market share increase that Matthew mentioned earlier.

There has been a reduction of the practices still relying on Excel and doing manual processing – that portion of the market fell by 2% last year.

Note: The increase in Super Concepts' market share was predominantly due to the acquisition of Reckon's desktop super platform.

We also continue to win share from our competitors predominantly due to a shift away from defunct desktop software.

Class customers are growing, and collectively, the established Class customers added over a quarter of the new funds loaded to Class during the year.

This organic growth has a lower cost of acquisition compared to new sales, and again, nicely demonstrates the scalability of our business model and our customer satisfaction levels.

Slide 10 – Impact of Super Reforms

I've mentioned the impact of Super Reforms a couple of times already. Longer term we expect the complexity to drive the need for Class Super and the caps on Super to drive the need for Class Portfolio.

But the immediate impact was negative for the industry:

- 6 months of uncertainty;
- followed by larger than expected and rapid changes; and
- caused a decline in SMSF establishments, to the lowest number in 5 years.

It had a significant effect across the industry:

- the ATO extended the SMSF tax lodgement deadline by six weeks to allow firms to cope.

Slide 11 – Quarterly Growth

Class was also impacted:

- in the June and September quarters, firms delayed loading of funds or deferred their move to the cloud; and
- it was not until September that we saw a return to historical rates of conversion.

We think that Q2 is the "calm before the storm". There is a second wave of Super Reform that will impact Q3 and Q4. We believe that impact will be bigger than last year, and we expect that for many firms this has the potential to push their move to the cloud out to the first quarter of FY19.

Slide 12 – Q2 Campaign

We do not want that to happen so we are taking advantage of the “calm” in this quarter. We have a campaign with a very strong incentive for firms to move now rather than later. After a small pilot, the early results of the campaign are very positive.

Super Reform is an extremely complex area which is poorly understood by the market. Class will be hosting an event in November to provide more education to our investors around the impact of the reforms and the opportunities they present for Class.

Slide 13 – Plenty of Opportunity to Increase Share

We remain confident that Super Reform will be good for Class once we get through Q3 and Q4 this year. Once the industry has a handle on the changes, we expect to see:

- a resumption, albeit at a slower rate, of the growth in SMSFs;
- a consolidation of smaller players; and
- an accelerated adoption of cloud SMSF software as administrators pursue efficiency.

This slide shows where Class customers have come from as at 30 June. it also maps out the potential for future growth.

In the top rows of the table you can see that Class is not directly focused on the DIY investor or sub-25 fund, “general practice” segment. We expect to see these segments continue to shrink as specialist SMSF practices and administrators leverage technology to consolidate the market.

The middle of this table covers specialist SMSF practices with 25-500 funds. This segment is our heartland. 77% of our current customers fit in this category and they account for nearly 70% of our revenue.

These SMSF practices need to embrace technology to stay competitive, especially against Class users who have a track-record of out-competing their peers, and who are positioned to do well out of the expected consolidation of smaller SMSFs books.

We expect to see a greater proportion of new funds coming from these practices. Crucially, there is still nearly a quarter of a million addressable funds in this segment.

Another consequence of the Reforms is that we expect that the caps on contributions and pension balances will limit contribution inflows to SMSFs in future years and that this will lead investors to rethink their past reliance on SMSFs as a “catch-all”.

Moving forward, investors will need a broader set of wealth strategies. Class, is the only wealth accounting software provider, already able to deliver the ‘whole of wealth’ solution that will be needed – great news for our plans for Class Portfolio

Slide 14 – Class Portfolio Growth

A key focus of future growth is Class Portfolio. We added over 1400 accounts this year, a 78% increase.

The strategy for growing Class Portfolio is based on cross-selling into the existing customer base. 70% of Class Super users have said they would consider using Portfolio, and 28% of them have already started using the product.

Accounts per customer are low but we expect this to continue to increase as firms become more familiar with the product.

Unfortunately, the disruption caused by Super Reform, made it hard to get the attention of many of our existing customers over the last 6 months.

As noted earlier we expect the relevance and importance of Class Portfolio to increase, as the practical impact of the changes, becomes more apparent, and 'whole of wealth' or 'Family Office' style planning leads to more consideration of wealth outside Super.

Slide 15 – Large Class Portfolio Opportunity

How much household wealth is outside Super? Industry data shows that the Personal Investment Market is nearly 40% larger than Super but it is highly fragmented, and has many small and single asset class portfolios, which may not be directly addressable by Class.

Rice Warner tips the Personal Investment Market to grow steadily over the next 15 years. On top of that industry commentators have pointed-out that the Personal Investment Market is likely to benefit from a shift of some voluntary investments away from Super, due to the new caps and limits now in place.

Our analysis indicates that about 2m portfolios would eventually be addressable via Class Portfolio. However, many of those 2m accounts would require a direct-to-investor offering.

Focusing on the portfolios where an accountant is likely be involved, Class estimates about 600 thousand portfolios are addressable (compared to 500 thousand addressable SMSFs).

Class is also reviewing Family Pricing structures and we believe this could increase the addressable market to include smaller, related portfolios, that a household would want to consolidate. We think this would, double the size of the addressable market and, we estimate, it will provide revenue potential equal to that of the SMSF market.

Slide 16 – Clear Strategy

The Class strategy for FY18 is clear:

- invest in Class Super to maintain market leadership and win further SMSF market share, despite a challenging environment;
- deliver Class Portfolio to address the \$3t in assets that investors hold outside super, and improve our engagement with financial planners, particularly, those working closely with accounting firms; and
- we also plan to expand and better leverage our partner ecosystem, to increase revenue share from partner products, enhance customer value, and provide the broadest wealth accounting platform possible.

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