

Countplus Limited FY2016 Annual Results

- ✔ **Record Net Profit before Tax: \$21.8m (up 67%)**
- ✔ **Earnings Per Share up 35%**
- ✔ **2c Quarterly Interim Dividend Declared**

The Directors of Countplus Limited (CUP) report a Consolidated Net Profit before Tax result of \$21.8m (up 67%) and a Net Profit after Tax result of \$14.0m (up 41%) for the year ended 30 June 2016. This increase of 41% is due to the fair value gain on our investment in Class Limited of \$11.4m (after tax) which was partially offset by a \$2.7m impairment expense and a higher tax expense relating to the tax deconsolidation of 3 Member Firms under our Direct Equity Plan and the disposal of 1 Member Firm. Profit attributable to Owners of Countplus Limited was \$13.4m (up 35%) which is after the completion of the three Member Firm buybacks, which better positions CUP for the future by aligning Member Firm interests with shareholders.

A recorded presentation of the Countplus 2016 full year results, presented by the CEO and CFO will be accessible via [Board Room Radio](#) later today.

1. Management Comment

The strong Net Profit Before Tax (NPBT) performance is due to the fair value gain on our investment in Class Limited. Countplus Limited together with its subsidiaries owned approximately 5.4% equity in Class Limited at 30 June 2016. This has been an outstanding long term investment for Countplus following Class Limited's successful IPO in December 2015. A number of institutional analysts have maintained a buy rating following the recent release of the Class FY16 financial results which reported a 71% increase in net profit after tax (before one-off IPO expenses).

The Company's flat net revenue reflect continued subdued trading conditions in the accounting/business services area. Our full year results have been impacted by non-recurring cost relating to ADVICE389 and BLUE789 and the goodwill impairment of two accounting businesses.

Financial planning is continuing to see growth albeit slower (up 1.3%) across Member Firms. The group's largest firm, Total Financial Solutions continues to benefit from the impact of new firms joining their network. Including our Associate Hood Sweeney, the Countplus Group has over \$5 billion funds under advice (FUA).

Our shareholding in our largest equity accounted associate, South Australian based firm Hood Sweeney, increased from 26% to 32% as a result of a share buyback without an additional investment from Countplus.

2. Financial Highlights

			% Change
1.	Total Net Revenue	\$87.62 m	Down 0.9%
2.	Consolidated Operating Profit (EBITA)*	\$25.78 m	Up 50%
3	Consolidated Net Profit before Tax	\$21.81 m	Up 67%
4	Consolidated Net Profit after Tax	\$13.98 m	Up 41%
5.	Profit Attributable to Owners	\$13.39 m	Up 35%
6.	Basic Earnings per Share	12.13 cents	Up 35%
7.	Diluted Earnings per Share	12.13 cents	Up 35%
8.	First Interim 2 cents Dividend declared payable 15 November 2016	ex-date: 26 October 2016	record date: 27 October 2016

*In accordance with Australian Accounting Standards the Consolidated Operating Profit (EBITA) includes the fair value adjustment relating to Class Limited shares which listed in December 2015. These shares have been valued at the June 30th price of \$3.30 (\$3.58 closing share price on 24 August 2016).

3. Capital Management

3.1 Progressive Restructuring

We have previously advised that we are progressively restructuring our business model over a 3 year period and this may in the short term negatively impact earnings and EPS. The restructuring has also impacted profits pending the reinvestment of proceeds from the Direct Equity Plan (DEP) into new investments. The Board remains committed to these restructuring initiatives and establishing an improved platform for alignment of the interests of the Principals and Shareholders.

3.2 Net Debt

Net debt as at 30 June 2016 was \$19.3m. The group's interest bearing loan reduced by \$767,000 due to settlement of a commercial property sale in August 2015 and funds from the DEP.

3.3 Dividends

Dividends of 8c per share were declared and paid for the 2015/16 financial year.

The first quarterly dividend of 2 cents per share fully franked is payable on 15 November 2016 and was declared on 25 August 2016. We review our dividend every 6 months in conjunction with our financial results.

4. Growth Initiatives, Acquisitions & Divestments

We have previously reported the establishment of two growth initiatives BLUE789 (BLUE) to invest in market leading accounting businesses and ADVICE389 (ADVICE) a similar initiative to invest in quality financial planning businesses. This strategy involves partnering with quality

accounting and financial planning businesses through a shared equity model. This is in contrast to a 100% outright ownership model.

ADVICE welcomed its inaugural Member Firm, Hunter Financial Planning (“Hunter”) in August 2015, when a 40% equity interest in Hunter was acquired by ADVICE. Hunter is well respected in its local community and is well regarded in the financial planning industry. The business has been able to demonstrate a history of strong growth in both revenue and profit and also the ability to continue to grow.

Due to non-recurring set up costs in the first half of FY2016, BLUE and ADVICE have contributed to high head office costs. As acquisition progress has been slower than anticipated, after almost 12 months of operations, a Board decision was made in December 2015 to reduce management costs relating to these businesses. We maintain our commitment to these long term initiatives by utilising existing resources within the Company.

We will continue to pursue growth through further business combinations & acquisition activities at 2 levels:

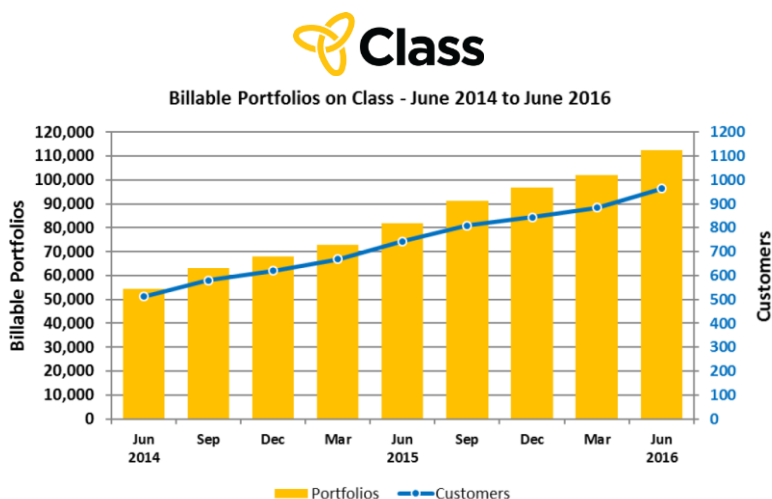
- Acquisition of initial minority stakes in stand-alone businesses at the group level through BLUE and ADVICE; and
- “Tuck-ins” or full acquisitions by existing Member Firms at the subsidiary level.

During the 2016 financial year, the following acquisitions and investments have been confirmed and/or completed:

- In August 2015, Countplus subsidiary ADVICE389 Pty Ltd acquired a 40% equity interest in NSW based company, Hunter Financial Pty Ltd. The purchase consideration of \$2.75m was settled in full on completion.
- In August 2015, Countplus subsidiary Bentleys (WA) acquired the business assets of Perth based company, Australian Superannuation and Compliance (“ASC”). The purchase consideration of \$0.5m was settled in cash in full on completion.
- In October 2015, Countplus subsidiary The MBA Partnership acquired the business assets of Queensland based accounting and financial services firm, HWC Accountants Pty Ltd (“HWC”). Consideration for the purchase was \$1.99m, including an estimated deferred component of \$0.45m. A cash consideration of \$1.54m was paid on settlement, with the remaining balance to be settled in 2 deferred payments.
- In January 2016, Countplus subsidiary The MBA Partnership acquired 51% of the business assets of NSW based firm, Cummings West via its newly established subsidiary, The MBA Partnership (NSW) Pty Ltd. The purchase consideration of \$0.38m was settled in cash in full on completion.
- In March 2016 Countplus subsidiary Robson Partners acquired 100% of the business assets of NSW based firm HyperTax. A cash consideration of \$225,000 was paid on settlement, with the remaining expected balance of \$220,000 to be settled in 2 deferred payments.
- In June 2016, Countplus subsidiary Kidmans Partners acquired 100% of the business assets of Robert Jan & Associates. A cash consideration of \$500,000 was paid on settlement with the remaining expected balance of \$125,000 to be settled in 2 deferred payments.

In May 2016 the Company sold a Brisbane based Member Firm, Change Accountants & Advisors and its subsidiary (Change GPS) to the existing principal management team for a cash consideration of \$1.8m. The consolidated results include 11 months contribution by the Change group which had a negative impact on the Company's operating earnings. An accounting gain of \$1.3m was booked on the disposal of the business. The Countplus Board and Change Accountants jointly formed a view that the focus of the Companies were not aligned and therefore the sale was in the best interests of Countplus.

4.1 Other Investments – Class Limited



As at 30 June 2016, the Company had a 5.4% interest in Class Limited, a listed self-managed superannuation platform. Class continues to enjoy significant growth in billable SMSFs on its platform (see table above), is profitable and paying dividends. This has been an outstanding investment for CUP following its successful IPO in December 2015.

5. Direct Equity Plan (“DEP”)

The Company has previously announced a direct equity plan for principals and employees of its subsidiaries, whereby they will be able to acquire equity directly in the business in which they work. This is expected to promote retention of key employees, facilitate appropriate succession for Principals and better performance alignment. Countplus will retain control of these subsidiaries under the terms of the plan.

The first three transactions under the plan have been completed. The proceeds of sale were used to reduce debt, fund further tuck-ins and the shared equity initiatives (BLUE and ADVICE), and the take up of additional shares in Class Limited shares at the IPO. Although we expect some initial impact on profitability due to the lag in the timing of new investments/acquisitions, this will be mitigated as participation in the plan will evolve progressively over the coming years.

6. Board Renewal

The Board are pleased to announce the appointment of Alison Ledger (former McKinsey Partner, Harvard MBA) and Matthew Rowe (former Managing Director Hood Sweeney and former Chair FPA) as Directors of the Company effective on 1 October 2016. We are currently conducting interviews for an additional independent Director.

Philip Rix will stand down at the 2016 AGM and will continue to lead Bentleys (WA) as the firm's Managing Principal in Perth.

Our Chairman, Barry Lambert, has indicated his intention to retire at or before the 2017 AGM.

7. Analysis of Financial Results

7.1 Group Performance

The table below shows the consolidated performance for the group for the year ending 30 June 2016.

	2016	2015	% Change
	\$ '000	\$ '000	
Accounting Related Revenue	58,022	58,243	-0.4%
Financial Planning Revenue (net)	20,340	20,087	1.3%
Property related income (net)	4,703	5,396	-12.8%
Other Operating Revenue	4,552	4,679	-2.7%
Total Net Revenue	87,617	88,405	-0.9%
Non-cash Fair Value Adjustments *	16,294	-	n/a
Other Income	2,396	2,536	-5.5%
Salaries & Employment (Member Firm)	-57,095	-54,694	4.4%
Salaries & Employment (head office)	-2,405	-1,750	37.4%
Premises Expense	-5,423	-5,098	6.4%
Depreciation Expense	-948	-1,175	-19.3%
Impairment expense	-2,672	0	n/a
Other Operating Expenses	-13,098	-11,981	9.3%
Total Operating Expenses	-81,641	-74,698	9.3%
EBITA before profit from associates	24,666	16,243	51.9%
Share of Profits from Associates	1,111	893	24.4%
Operating Profit (EBITA)	25,776	17,136	50.4%
Interest expense (net)	-1,293	-1,281	0.9%
Amortisation Expenses	-2,673	-2,804	-4.7%
Profit before Tax	21,811	13,051	67.1%
Income Tax Expense ^	-7,831	-3,117	151%
Consolidated Net Profit after Tax	13,980	9,934	40.6%
Other Comprehensive Income (net)	0	0	
Total Comprehensive Income net of Tax	13,980	9,934	40.6%
Profit attributable to:			
Owners of Countplus Limited	13,392	9,930	34.9%
Non-controlling interests	588	4	
	13,980	9,934	

* The Non-cash fair value adjustment is related to the revaluation in Class Limited shares.

^ The income tax expense includes \$1.3m relating to the tax deconsolidation of 3 firms under the direct equity plan, disposal of 1 subsidiary and impairment of goodwill.

7.2 Balance Sheet

	2016	2015	% Change
	\$ '000	\$ '000	
Current Assets	29,061*	33,766	-13.9%
Current Liabilities	19,293	18,892	-2.2%
Current Ratio	1.51	1.79	
Non-Current Assets	90,456**	71,672	26.2%
Non-Current Liabilities	37,469	33,296	12.5%
Net Assets	62,755	53,250	17.8%
Net Debt	19,259	20,283	-5.0%

*Current assets as at 30 June 2015 included an asset held for resale of \$3m

**Non-current asset includes the carrying value of Class shares

7.3 Revenues

Revenues are earned primarily from the provision of accounting and related services, but also include financial planning revenue, revenue from loans & equipment financing, insurance commissions and property sales commissions.

Economic conditions continue to be challenging for our accounting businesses, which is reflected in no growth in the group's accounting revenue compared to prior period. The second half of the year produced a stronger result (3.2% compared to prior year).

Net financial planning revenue was up only 1.3% over the period, and makes up 23% (2015: 23%) of total net revenue. 16 Member Firms are franchisees of Count Financial, offering financial planning services.

Property and related services revenues represented 5.4% (2015: 6.1%) of total net revenue.

7.4 Expenses

Salary & employment expenses relating to Member Firms was up 4% primarily due to increases in headcount, mainly from tuck-ins, internal audit and compliance staff requirements and restructuring related costs. Head office salary and employment expenses was higher due to new management and high initial non-recurring set-up costs for our BLUE789 & ADVICE389 initiatives. Head Office employment cost is expected to reduce in the current financial year.

Other operating expenses increased by 9% over the prior period primarily due to higher professional fees and marketing expenses and higher office relocation costs.

7.5 Share of Profits from Associates

This is primarily the group's share of profits from 3 of its associates. The largest associate is the group's 32% interest in South Australian professional services firm, Hood Sweeney. The initial investment in Hood Sweeney was acquired in October 2012.

7.6 Amortisation Expenses

Amortisation expense of \$2.67m (down 5%) relates primarily to an accounting requirement to write down the value of intangible assets, acquired client relationships and adviser networks (non-cash) over their expected lifetime. A conservative diminishing value method is used to amortise these assets, ensuring that the proportional impact of this expense reduces over time.

7.7 Other Developments

In the first half of FY2016 Total Financial Solutions Australia Limited (TFS) accepted an additional condition on its Australian Financial Services Licence (AFSL No: 224954) from ASIC. The licence condition relates to the actions of one adviser and the Company believes the matter is not systemic. In February 2016 pursuant to this condition, TFS appointed an independent expert with ASIC approval. This expert is to oversee the remediation program undertaken by TFS on any affected clients as a result of the non-compliant advice provided by this adviser.

TFS is currently in the process of assessing all advice provided and has updated its provisioning for this work to be completed from \$170,000 as at 31 December 2015 to \$530,000 as at 30 June 2016. TFS is of the opinion that this provision reflects the anticipated costs of the remediation program. This amount includes all additional resources required to finalise the remediation program.

In March of 2016 TFS received indemnity from its professional indemnity insurers for the enquiry costs component of the additional licence condition. It is anticipated that this will mitigate some of the legal costs incurred in dealing with this enquiry. TFS has contractual agreements with the adviser which fully indemnifies the company for their actions through personal guarantees as well as indemnities from the principals of the practice and has instigated legal proceedings for the recovery of costs to date. TFS is currently working with its insurers to obtain indemnity in the event that any detriment that may have been caused to any client as a result of the advice provided is rectified. To date no claims have been made therefore this portion of the policy is yet to be activated.

8. Material Developments Post the Reporting Period

On 17 August 2016 the Company disposed of 500,000 Class Limited shares at a sale price of \$3.45. The cash received was approximately \$1.715m (after transaction costs). Our current shareholding is 4.99%.

On 25 August 2016 Countplus Limited declared an interim dividend for 2016/17 of 2 cents per share payable on 15 November 2016 (record date 27 October 2016).

On 25 August 2016, Countplus Limited appointed two new non-executive directors, Alison Ledger and Matthew Rowe effective 1 October 2016. Philip Rix will stand down at the 2016 AGM. The Chairman, Barry Lambert, has indicated his intention to retire at or before the 2017 AGM.

9. About Countplus and the Group

The group maintains its diversified portfolio of businesses, represented in every mainland capital city of Australia and in a number of regional centres. Countplus is an aggregation of 18 businesses and their subsidiaries across Australia; 15 accounting/business advisory firms, one

financial planning specialist, a property broking group and a financial planning dealer group. In addition, Countplus has a number of investments in Associate Firms including a 32% interest in Hood Sweeney (a large professional services business), 40% interest in Hunter Financial Planning and 3 Associate Firms of TFS. Countplus listed on the ASX on 22 December 2010.

For further information please contact:

Phil Aris
Chief Executive Officer
Telephone: 02 8488 4500
Email: phil.aris@countplus.com.au
www.countplus.com.au

John Collier
Chief Financial Officer
Telephone: 02 8488 4500
Email: john.collier@countplus.com.au
www.countplus.com.au