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CEO Letter
Matthew Rowe

Performance Summary

Nine months into two-year turnaround

- ▶ Profit from operations before tax of \$4,844,000 for half year after adding back impairments of \$4,700,000 (prior half year equivalent profit from operations before tax \$2,583,000).
- ▶ Board believes restructuring is substantially complete.
- ▶ Adjusted profit ("same firm" analysis) increased 22% on prior corresponding period from \$3,597,000 to \$4,383,000.
- ▶ Nil interest bearing non-current debt, \$25,443,000 debt repaid in last 12 months.
- ▶ Dividends not yet resumed due to impairment impact on NPAT, however if there are no more significant impairments or material change, we expect to resume dividends at the full year FY18.
- ▶ Almost half of leadership in firms replaced with new Managing Principals. In addition, Firm Chairs have been appointed to improve governance and assist with focus on strategy.
- ▶ New owner-partner driver model implemented with key talent purchasing equity in initial firm rollout.

Dear Shareholder

Thank you for being a fellow shareholder in CountPlus Limited (CountPlus).

February 2018 marks the first anniversary of my tenure as your Chief Executive Officer. This letter explains the detail behind the half-year results for the 2018 financial year and progress made in the ninth month of our two-year turnaround strategy.

It also outlines the exciting future under our “Success Partner” initiative – aimed at developing a unique **Owner-Driver, Partner** relationship with high-quality and successful accounting and advice firms.

But firstly, thank you for taking the time to read this letter.

It continues an important commitment made by me 12 months ago to keep all loyal shareholders apprised of the many changes – some small, others of deeper strategic magnitude – that together are helping to shape a new CountPlus.

The primary goal and focus for CountPlus has been consistently stated and affirmed by our actions over the past year. Simply, we are working hard to become Australia’s leading network of professional accounting and advice firms, aligned through shared values, mutual success and our sense of community.

Turning around CountPlus: a two-year strategic mission

On May 30, 2017, I went on the public record to outline the task required to enable the Company to fulfil its primary goal stated above. A thorough strategic plan was subsequently developed, acknowledging that the business fundamentals and market environment for success were both solid.

I also made clear that two years was needed to reset a challenging legacy business model. It was necessary to move away from a previous model where CountPlus had become a 100% owner of Member firms; to align and renew the interests of Member firms through smarter equity partnerships and incentives, and ultimately turn around the Company performance on behalf of our shareholders, our firms, our people and their clients.

This letter comes to you just nine months into our 24-month turnaround strategy. Much has been achieved, and there is much more to be done. I trust you will see in the following detail the progress we have made, the early wins we have recorded, and how the recalibration of the Company will help us to deliver on our core, two-year goals.

The good news is that we are making measurable progress.

Throughout calendar 2017, a thorough management review of the operations of all Member firms helped guide some decisive action. Non-core or underperforming businesses were sold. Some firms were merged. New leadership talent was installed in almost half of our core Member firms in the last six months. New governance structures have been put in place with close to all our firms now having an Independent Firm Chairman.

Previous road blocks to greater profitability have been removed or remediated. The path is clear for the prudent management of available capital, and our underlying core Member firms have begun cementing their individual and team success based on a renewed focus on the four cornerstones of professional practice, namely: leadership, people, planning and systems.

Cultural change across our firms has mobilised with a focus on:

- ▶ core values;
- ▶ team behaviour;
- ▶ governance;
- ▶ strategic planning; and
- ▶ revitalising our client value proposition.

We are encouraged through knowing that tough decisions have been made and the benefits are on track to follow.

“Same firm” analysis

The CountPlus management team focuses on a range of key metrics when assessing the performance of the Company.

A central measure is the “same firm” analysis, where key operating metrics for our core business units is calculated. In this “same firm” scenario we have removed impairments, revaluation of investments, gains on sale of investments, gains on deferred consideration, non-recurring restructuring costs and all the business units we have sold.

The results are detailed in the following table:

| | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|---|-------------------------------|-------------------------------|
| Profit from continuing operations before income tax | 144 | 1,803 |
| Impairments of intangible assets | 4,700 | 780 |
| Revaluation of investments | 0 | 2,298 |
| Gain on sale of investments | (1,402) | (256) |
| Gain on deferred consideration | 0 | (925) |
| Profit from Associates | 328 | 230 |
| Termination and redundancy costs on restructure | 613 | 45 |
| Results from exited firms | 0 | (378) |
| Adjusted profit (same firm analysis) | 4,383 | 3,597 |

Notes

- ▶ The underlying profitability of core business units in the same firm analysis result shows an increase over the prior period of 22%.
- ▶ Income from associates improved by 43%. Included in the prior period result are firms sold being Financial Momentum Vic Pty Ltd, McQueen Financial Group Pty Ltd and Nixon Financial Services Pty Ltd. The current period result comprises results from One Hood Sweeney Pty Ltd and Hunter Financial Pty Ltd.
- ▶ Impairment of intangible assets of \$4,700,000 is comprised of the impairment of CountPlus FS Holdings Pty Ltd (TFS) in the amount of \$3,500,000 and Achieve Corporation Pty Ltd in the amount of \$1,200,000.
- ▶ The prior period revaluation of investments relates to the revaluation of Class Ltd shares held.

CountPlus has actively intervened in the management of several firms, replacing the leadership in almost one half of firms, and we continue to focus on people and building our bench strength of talent.

During this period of transformation Management is especially pleased to see “same firm” adjusted profit increase by some 22% compared with the same period last year.

In short, the cultural, values and leadership aspects of our business are transforming. The financial results should continue to improve - and be sustainable - with these stronger foundations in place.

Key Metric: Lock-up days now consolidated, and improving

In February 2017 just two firms had achieved our target of 85 days lock-up. Today, around half of our firms are achieving 85 days lock-up or better. The best performing firm is achieving 60 days.

The average lock-up days across the “same” core firms improved from 107 days in December 2016 to 97 days in December 2017. The Company is actively managing and targeting lock-up days across all firms to reduce it to 85 days by June 30, 2018.

| | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|--|-------------------------------|-------------------------------|
| Debtors | \$12,109 | \$16,769 |
| Work in Progress | \$6,439 | \$7,275 |
| Sub-Total “Lock-Up” | \$18,548 | \$24,044 |
| Lock-Up Average Days | 97 days | 107 days |
| Working capital debt owed by subsidiary firms to CountPlus (excluded on consolidation) | \$13,110 | \$15,489 |
| Non-Current Interest-Bearing Debt | \$ nil | \$25,443 |

Importantly, tighter fiscal controls have meant we have secured favourable arrangements with Westpac. CountPlus finalised a new, five-year \$25 million debt facility, with attractive terms to provide certainty and significant cost savings for CountPlus.

The Company is well-placed for growth.

Dividends

The CountPlus Board set a dividend policy at a range of between 40% and 70% Net Profit After Tax.

Further impairments during the current reporting period resulted in a \$3,281,000 reported loss after tax and the Board has decided that it is currently premature to resume payment of dividends.

All at CountPlus are disappointed this has happened and acknowledge the impact this has on shareholders. Decisions have been made that, while tough, the CountPlus Board believes are the right decisions for the long-term benefit of all stakeholders.

Underlying “same firm” profitability is solid and encouraging. If this trend continues, with no further significant impairments or material change, resumption of dividends should take place at the full year end 30th June 2018.

Total Financial Solutions (TFS) remediation update

On the 27th February 2018 ASIC wrote to TFS and acknowledged the positive engagement and constructive approach taken by TFS to this matter and noted the considerable improvements made to the TFS business practice and compliance culture over the past 12 months.

TFS will now submit a final application to ASIC to remove the additional licence conditions on or before the 14th April 2018. ASIC has noted that the progress made by TFS to date would indicate that remaining actions will be completed in a timely manner and that removal of the licence conditions could be actioned promptly once the application is received.

Once the licence condition is lifted this will draw a line under this matter for TFS, allowing us to focus on rebuilding TFS as a licensee of the future.

The Boards of CountPlus and TFS would like to extend their appreciation to ASIC for their work in this matter.

This remediation program saw TFS contact over 520 clients, undertake extensive reviews of advice given and made good those clients that had been financially impacted because of the advice provided by Brian Dobinson.

This has been a very difficult time for those clients impacted by the advice of Mr Brian Dobinson and for TFS. Our overriding focus in this remediation project was to do the right thing by our clients. Independently verified governance standards and reporting disciplines have been implemented to ensure that the problems of the past, like the TFS Dobinson matter, will not be repeated. A new Head of Risk and Compliance, Shannon Durrant, has been recently appointed to TFS as part of key reforms. Independent counsel has also led an exhaustive review of the governance and compliance standards within TFS.

A total provision of \$1,717,000 has been made in relation to the Brian Dobinson remediation matter. Given extensive further reviews and the status of outstanding remediation claims still being assessed, TFS has written back \$247,000 of the provision made.

Significant changes have been made to the TFS operating model, reflecting management's desire to build a high-quality licensee offering compliant, ethical financial advice and a sustainable business.

These changes have been far-reaching and will demonstrably benefit clients, and the advisers that serve them.

However, the new operating model for TFS will deliver a lower profit contribution to CountPlus in the near term, as a result it has been necessary to impair the carrying value of TFS by \$3,500,000.

Pacific East Coast

On February 27, 2018 a binding sale agreement was signed with the current Principals of Pacific East Coast for \$3,450,000. The sale of this business unit produced a loss of \$2,055,000.

The sale of Pacific East Coast resulted from our strategic review of all firms. CountPlus has taken a view it is a non-core asset. The operating model of this business unit has a different remuneration structure to our core business units. The revenue drivers are highly leveraged to the property market and we feel it is an appropriate time to exit this business unit.

Pacific East Coast was purchased in 2012 for \$6,900,000. In August 2015 a part of the business was sold for \$3,050,000 and a parcel of approximately \$300,000 in Accounting fees operated by the business was transferred to our then subsidiary firm Kidmans Partners.

CountPlus and Total Financial Solutions will continue to collaborate with Pacific East Coast under a new referral arrangement, post the sale of the business.

Achieve Corporation

On February 27, 2018 a binding sale agreement was signed to sell Achieve Corporation, the payroll processing business unit in our Canberra firm for total consideration of \$2,020,000. After the sale of the payroll business unit and the restructure of our Canberra Office an impairment of \$1,200,000 has been made.

The restructure follows a review of the Canberra business units – Achieve, Addvantage and Mark Kenmir & Co. It has been agreed to sell the payroll business unit and focus on our core service offerings in Accounting and Advice.

Mark Kenmir has been appointed Managing Principal of the restructured firm. The highly-respected Mark Rantall has been appointed as the Firm Chairman.

Owner-Driver Partner Model

To win in the market in 2018 and beyond, the Company is evolving its value proposition to carve out a new industry niche. Our vision remains unchanged – to become Australia’s leading network of professional accounting and advice firms, aligned through shared values, mutual success and our sense of community.

We have been focused on aligning, building and growing our core business. As part of this, we have re-examined our traditional value proposition which saw us offer ownership of these firms and in return, the provision of intellectual and investment capital. From our review, we know that a 100% ownership model can lead to misalignment of interests between our people, firms and our shareholders.

Additionally, CountPlus is competing with a group of consolidators and aggregators that run similar types of business models which, to the market, appear largely the same ... leaving us without a strong competitive advantage and a potentially diluted market position.

It is time for change.

To compete and succeed, we need to step up and out of this ownership model and move to one where our principals **own and drive** their firms without loss of identity, while **partnering** with CountPlus using agreed team rules, shared processes and controls, improved funding and economies of scale.

This 'best of both worlds' approach, will ground firms with a strong notion of perpetuity and custodianship, as well as a renewed strength to overcome the myriad challenges that operating and growing a successful practice brings.

We call this the **"Owner-Driver, Partner" Model** and its rollout will set us apart from industry aggregators and consolidators.

This model, successfully deployed, will allow us to:

- ▶ drive organic growth through the acquisition of new equity interests under owner-driver/partner firms via existing firms
- ▶ drive additional growth through an additional portfolio of member firms which matches the CountPlus Family Photograph
- ▶ reduce acquisition risks through mechanisms around earn-outs and retention for key management, and
- ▶ underpin growth and reduce practice management headaches with common IT systems, best practice HR practices, risk management processes and compliance procedures.

The Owner-Driver, Partner Model will have the following characteristics:

- ▶ inspire initiative and loyalty, by allowing firms to preserve their local brand and unique identity
- ▶ build confidence by offering strategic support, funding for growth and investment, scalable benefits and succession planning, and
- ▶ improve performance at the individual level while leveraging the benefits of a national group through its business model, facilitating collective sharing of experience, expertise and best practice.

The model will:

- ▶ regulate the relationship via shareholder agreements, employment agreements and participation agreements between member firms and CountPlus
- ▶ allow owners to retain day to day management, with CountPlus providing strategic support as well as access to IT systems, best practice HR programs, improved compliance, stronger risk management
- ▶ provide a source of equity and debt finance for acquisitions and growth, and
- ▶ provide the flexibility to change the ownership structure of any firm if required.

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A new value proposition

Together with a more powerful ownership model, comes a more compelling value proposition. Our new statement of the tangible business results that current and future member firms can expect from CountPlus is as follows:

CountPlus

Your success partner

CountPlus partners with selective accounting and advice firms to amplify their success without loss of ownership, drive, identity or control. This partnership allows firms to better meet current and future challenges by providing strategic support, funding capital, scalable benefits and succession planning, as well as access to a professional community who want to protect and grow what they have worked so hard to build.

This value proposition will become the cornerstone of current and future marketing messages, guiding our selection and development of future features and benefits for our firms. It will also align our stakeholders – our shareholders, member firms, clients and people – about why CountPlus exists.

Which firms do we want to attract?

We remain focused on finding the right firms and seek only quality partnerships with successful firms who fit **The CountPlus Family Photograph**. This photograph is framed literally through a lens by which we focus on firms, and filter them based on their sustainability and values, to make informed decisions about investing, growing or exiting firms.

At a high level, the right fit means evidence of sixteen attributes:

1. A client value proposition
2. Leadership with strong bench strength
3. Strong governance structure with an Independent Chair
4. Strong financial controls and management reporting in place
5. An inquiring mind regarding innovation and willingness to embrace new technology and processes
6. Accountability and Incentive framework
7. A strategic and business/operating plans in place and milestones measured against balanced scorecard
8. A strong focus on culture, people and values
9. Debt management and the financial health of the underlying business and principals
10. Growth strategies in place with a growth mindset
11. Succession planning
12. Risk management framework in place
13. A quality culture and framework in place with quality assurance controls and willingness to participate in ongoing peer review process
14. Willingness to share best practice and be part of the CountPlus community
15. A strong engagement with their respective professional community, and
16. A world view that incorporates philanthropy and/or pro-bono activities.

Why will firms consider CountPlus?

Through our strategy of bringing together progressive practices and amplifying their ability to serve their clients more successfully, firms who join CountPlus benefit from a stronger value proposition. **They will:**

Gain a partner, not an owner.

We recognise that our target firms have worked hard to build successful practices. They have enjoyed independence, direction and control but recognise they need strategic support to stay in good shape now and into the future. In short, they don't want a new owner, they want a new partner; one who won't rebrand, strip down the business or centralise operations. They want a partner for success.

Successful partnerships have agreed team rules, processes and governance, aligned interests and a wealth of experience to share ... so there is much to gain and much to learn.

As part of CountPlus there is a sense of perpetuity, with a partnership approach that allows for long-term, sustainable and 'client first' decision making.

Stay small, play big.

There is significant opportunity in the advice market, along with a raft of challenges. Consider the growing appetite for advice by small to medium enterprise, the shift from compliance to higher value advisory, the growing pool of superannuation and the SMSF dynamic, and the changes in technology that will allow increasing efficiencies and profitability for firms who are disciplined and focused.

Can our target firms tackle these alone? CountPlus can be both a catalyst for change and a competitive advantage, allowing them to more confidently ride the waves of opportunity and successfully navigate change.

At our Annual CEOs Summit or our quarterly CEO catch ups, our CEOs talk with other leaders from around the network to exchange views and perspectives – and benefit from the collective wisdom.

Strengthen their balance-sheet.

At CountPlus, we invest in our firms through:

- ▶ financial disciplines that allow a regular income stream to owner-drivers (paid in the form of quarterly franked dividends)
- ▶ access to capital to fund growth and clear debt, and working capital
- ▶ reduction or elimination of succession planning/funding concerns
- ▶ access to the combined buying power and economies of scale that CountPlus can negotiate

With business risk reduced and a new source of investment capital, owners can make improvements to strengthen their balance sheet and stay competitive in their local market.

Raise the investment in people.

A priority for all professional advice firms is to attract and retain talented people in a tight employment market. Aligned ownership and incentive models, an enhanced ability to bring about generational change, and more robust HR practices will help these firms to level the playing field and ensure that their teams all get the chance to grow and succeed, with coaching from the sidelines.

CountPlus will assist member firms to also build strong leaders and support the rising stars within their ranks with new programs such as:

- ▶ **Courageous Leadership** where managers network with their peers and learn what it takes to grow into a future leader, and

- ▶ **The Barry Lambert Scholarship**

where high potential partners vie for a chance to attend the "Leading Professional Services Firms" Executive Education program at Harvard Business School in Boston, USA

As well, firms will benefit from access to talent management programs based on 'best of breed' in the market and within current firms. This includes performance management frameworks, principal evaluation processes, workforce planning, remuneration and benchmarking. And at the other end of the spectrum, assistance with difficult or problematic staffing issues will ease the way for improved morale and increased retention.

Our current members are seeing value.

With so much in the works as we continue our transformation, it was pleasing to see that a recent survey (October 2017) found that CountPlus Member CEOs had identified value from their association with CountPlus. What did they notice and value the most?

- ▶ Improved governance, financial discipline and accountability
- ▶ Growth either from equity, acquisitions, financial backing or brand association
- ▶ Stewardship, leadership, direction and new services from CountPlus
- ▶ Group buying power and economies of scale
- ▶ An enhanced ability to bring about generational change, and
- ▶ An enhanced ability to provide financial planning services

And with additional initiatives now being planned, we are confident our value proposition will continue to grow.

First-half “owner-driver partner” achievements

We are delighted to announce the successful delivery of our “owner-driver partner” model to one of our existing firms, Mogg Osborne.

Mogg Osborne

All Principals and key team members have agreed to purchase equity in Mogg Osborne, in total 35% of the firm has been sold back to 10 key people in the firm.

Peter Mogg will continue to lead Mogg Osborne as Managing Principal. Mr Mogg will also be a shareholder in Mogg Osborne.

Quality Focus

While CountPlus undertook due diligence on three other firms during recent times, we decided not to proceed with these transactions. We have in place a disciplined approach to aligned partnerships and will only invest in firms where it is in our best commercial interests to proceed.

Future merger and acquisition opportunities will be determined by seeking highly-aligned, high quality firms, not based simply upon a desire to expand our national footprint. CountPlus intends to become a genuine partner with its Member firms, including assisting the best practice running of each business. This will help to also ensure that maximum value for the CountPlus group is being generated. Selecting future partner firms would be done to reinforce this core philosophy.

As part of measures aimed at improving efficiencies among member firms, we formed the CountPlus “Cloud Champions” to streamline our information technology systems. Three internal IT projects are underway to result in improved reporting, debtor management and Customer Relationship Management (CRM) outcomes. All member firms have now moved to Xero for general ledger processes, including TFS. We have improved internal reporting on key metrics. This greater transparency will allow for the more efficient management of our operations.

Community

CountPlus has announced a closer working relationship with the Count Charitable Foundation.

Project 7x7 is now underway with all firms participating in building philanthropic and pro-bono programs. Our goal is to have achieved \$2,020,000 in pro-bono and philanthropic giving by 2020.

An Advisory Committee from leaders in our member firms has also been established. The Committee will work closely with CountPlus to implement best practice ideas amongst our community of firms.

David Reeves, Managing Principal of Cooper Reeves, attended Harvard Business School in January 2018 as the inaugural winner of the Barry Lambert Scholarship.

Looking ahead

CountPlus is almost at the half way point of a two-year program to turnaround the underlying business, improve profitability and deliver greater value to our member firms, their clients and importantly, our shareholders.

Our actions over the past year, and the operating results reported for the 2017/18 financial half-year today, lead us to believe we are well on our way to becoming Australia's leading network of professional accounting and advice firms.

But we are not complacent. We will continue to align our member firms through shared values, common aims and a strong sense of community.

CountPlus will not reduce its focus on lifting performance across five key areas:

- ▶ our financials;
- ▶ our people;
- ▶ our firms;
- ▶ our community; and
- ▶ our focus on process and systems.

It is early days still, yet we have made significant progress to achieve real gains for CountPlus and its shareholders. On behalf of the Company and its Board I thank your being a valued shareholder in CountPlus.



Matthew Rowe
CEO

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