ASX ANNOUNCEMENT: CUP
Wednesday, 25 November 2015

Countplus Limited
ANNUAL GENERAL MEETING
CEO ADDRESS

countplus

Overview

Although our core accounting based income was down 1% reflecting continued challenging conditions within our small to medium size business (SME's) client base, we continue to diversify our income. Accounting based income now represents 65% of total revenue, down from 81% since listing in 2011. We continue to diversify our revenue base into growth areas, including financial planning – up 7.5% (excluding the discontinued Count Financial loyalty payments) and property services – up 19%. We expect this trend to continue in 2015/16 and beyond as new technology drives greater efficiencies, freeing up time to allow our people to provide more value add advisory work.

I am also pleased to announce our first transactions in our previously reported Member Firm buy-back program, the "Direct Equity Plan" (DEP). The DEP allows our Member Firms to buy back up to 40% equity in their business. We believe this program will better align Principals and senior managers to share directly in their own business and drive improved performance.

The proceeds from the buy-back will be used to invest in growth areas including the launch of our two new initiatives, BLUE789 (previously referred to as "C2"), targeting larger accounting practices and ADVICE389, targeting financial planning firms. In addition, our investment in Class Ltd (previously called Class Super), the SMSF cloud based administration software provider continues to grow strongly, achieving a 51% increase in billable funds over 2014/15. Class continues to grow its billable funds at around 50% pa as accountants and administrations move to Class' more efficient software systems.

The Group

Countplus and its subsidiaries (the "Group") is a diversified professional services business represented by 20 businesses (Member Firms) independently run with a presence in every mainland capital city and some larger regional centres. With our 20 Member Firms: 17 Members offer traditional tax and accounting services to individuals and small to medium sized businesses; 16 offer financial planning services; Total Financial Solutions, a financial planning dealer group consisting of 56 practices and 92 advisers; and Pacific East Coast, a property services group based in Melbourne. In addition, the Group also has strategic interest in a number of associate firms including a 30% interest in leading South Australian professional services group, Hood Sweeney, and 4 financial planning firms, McQueen Wealth Management (49%), Financial Momentum (40%), Nixon Financial Services (30%) and Hunter financial Planning (40%), all franchised Members of TFS.

2014/15 Results

The Group announced a net profit after tax attributable to shareholders of $9.93m, down 12.2%, representing diluted earnings per share of 9.01 cents, down 11.1%.

Our result was materially affected by the discontinued Count Financial loyalty payments, down by $2.87m (after tax) which was partially offset by a $1.17m (after tax) fair value gain from the property asset. Excluding these transactions, normalised net profit before tax was up 5.9%, reflecting an improved performance in the underlying businesses.

Once again, the best performing firms in the Group were our largest profit contributors Total Financial Solutions and the property based group, Pacific East Coast. Pacific East Coast had another record year with property transactions of over $200m and revenue growth of 19%. Pacific East Coast continues to access quality developments through its successful research methodology developed over 30 years. Of our accounting based businesses, a special mention goes to Kidmans Partners based in Melbourne, Twomeys in regional NSW, Countplus One in Sydney, Mogg Osborne in regional Victoria, Cooper Reeves in Brisbane and Hood Sweeney after their successful merger with Shearer + Elliss, an Adelaide based accounting and wealth advice firm.

Rewards, Incentives and Development

A critical part of Countplus' strategy is to ensure that our people are appropriately incentivised to drive performance and eliminate bad behaviour. Accordingly, Countplus has implemented a number of initiatives to ensure the Company is driving towards the right behaviours and outcomes.

Employees of firms that attain performance targets each year have the opportunity to be rewarded with equity in Countplus. During the year, we made our third annual issue of loan funded shares to 95 employees under the Group's equity reward loan funded share plan. We also issued up to $1,000 worth of shares to 117 employees under the Group's employee loyalty (tax-exempt) plan.

We are now into our third year of the Countplus Emerging Leaders Program which aims at promoting and developing the new generation of leaders to ensure a bright future for our firms. Key objectives and learnings from this program include how to improve decision making and insight, driving a higher performance culture and seeking and embracing change and innovation. We believe that development of our people is a critical success factor in attracting and retaining the best people.

As discussed previously, we have recently implemented the Direct Equity Plan (DEP), an exciting initiative critical to securing our most talented people and driving performance through better alignment. The DEP will allow key team members and Member Firm Directors to acquire from Countplus an equity interest in the subsidiary business they work in (Countplus currently owns 100% interest in most of its Member Firms). This interest can be built up over time, allowing Directors and senior managers to share directly in the success of their own business over which they have the most influence. While all Member Firm employees are eligible to participate (subject to approval of the relevant Firm's board and Countplus), this plan is targeting key employees, particularly the next generation leaders in each practice. I am pleased to announce that 3 Member Firms have completed their investment in the DEP in July and August 2015. The firms are MBA Partnership based in the Gold Coast, Kidmans Partners based in Melbourne and Specialised Business Solutions based in Brisbane. The new Shareholders in each of these Member Firms acquired up to 40% equity interest in their practices. We believe there could be one more transaction before the end of the financial year, and potentially 5-6 firms each year over the next two years.

Although the buy-back will initially have a negative impact on our Group results, this impact will be managed over the next 3 years. We do expect it to generate improved performance over time and it does allow the additional capital returned to be applied to fund further growth initiatives including BLUE789 and ADVICE389.

Growth Opportunities

We believe the recent restructuring of our non-performing firms and the buy-back initiative will result in a more improved core business performance. In addition, we also believe we are developing a strongly collaborative network of businesses willing to learn off each other to improve business performance, whether that be through better use of technology, improved business processes, marketing initiatives or better client engagement techniques. The adoption of Class by our Member Firms to enhance business productivity through better use of cloud based technology is a good example. From a small number of early adopters in 2010/11, today 100% of Countplus accounting firms utilise Class, providing greater efficiencies and freeing up time with their clients to discuss higher fee generating advisory work.

We continue to take steps to actively involve firms that can assist each other by sharing ideas and services including the establishment of a national audit firm, Countplus National Audits. The newly established audit initiative allows Countplus Member Firms and their clients to access best practice audit capabilities while focusing on their core business offerings. The sharing of ideas, initiatives and experiences is a key benefit of being part of Countplus.

The launch of our two new growth initiatives, BLUE789 and ADVICE389 allows Countplus to invest in quality accounting and financial planning businesses. Both initiatives provide a valuable solution to the growing challenge of succession within the professional services SME industry. Other growth opportunities have emerged with the advancement of technology in accounting services. Relatively new players such as Xero in the small business accounting space and Class (as noted above), without the baggage of outdated legacy systems, have been able to make significant inroads into the market share of long established and previously dominant providers. These systems are enabling compliance work to be carried out much more efficiently, providing more opportunities for accountants and advisers to offer higher value services. Many of our accounting based firms have been early adopters of these cloud based technologies and are well positioned for the future; in attracting talented people who want to work with the latest technology, in attracting clients requiring higher value services and in acquiring other businesses unwilling or unable to adapt to the latest technology.

Outlook

On a continuing business basis, ie excluding any abnormals, our full year 2016 profit before tax budgets are in line with FY2015. However, it is too early to be more specific as to likely outcomes in 8 months' time.

Phil Aris
Chief Executive Officer/Managing Director
Countplus Limited