countplus

**ASX ANNOUNCEMENT – CUP**
**25 February 2016**

# Countplus Limited FY2016 Half Year Results

## ✓ Net Profit before Tax: $10.66m (up 22%)
## ✓ Net Profit after Tax: $6.23m (up 2.5%)
## ✓ 3rd quarterly 2 cents dividend declared

The Directors of Countplus Limited (CUP) report a half year Consolidated Net Profit before Tax result of $10.66m (up 22%) and a Net Profit after Tax result of $6.23m (up 2.5%). This increase of 2.5% is due to the fair value gain on our investment in Class Limited of $4.73m (after tax) which was partially offset by a $1m impairment expense and a higher tax expense ($890k) relating to the tax deconsolidation of 3 member firms under our Direct Equity Plan (firm buyback). Profit attributable to Owners of Countplus Limited was $5.99m (down 1%) due to the completion of the 3 member firm buybacks, which better positions CUP for the future.

On the 24th February, the Company declared its third quarterly dividend for 2015/16 of 2 cents per share, fully franked, payable on 16 May 2016.

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 19 businesses and their subsidiaries across Australia; 16 accounting/business advisory firms, one financial planning specialist, a property broking group, a financial planning dealer group and 2 new initiatives BLUE789 and ADVICE389. Countplus listed on the ASX on 22 December 2010.

A recorded presentation of the Countplus December 2015 half year results, presented by the Chairman and CEO, will be accessible via Board Room Radio later today.

## 1. Management Comment

A market update was issued on 11 February 2016 which advised that full year operating results (before tax, abnormals and revaluation of Class shares) is expected to be around 20% below last year. New management is taking decisive action, the full impact of which will take time to be realised. Management expects the second half to be stronger than prior year.

The Company's results reflect continued challenging conditions in the accounting/business services area with net revenue down 2.9%. Our first half results are down due to higher provisioning charges (as a result of CUP's conservative provisioning policy), non-recurring cost relating to ADVICE389 and BLUE789 and an impairment of one of our smaller accounting businesses. Non-accounting businesses performed relatively stronger.

Financial planning is continuing to see growth (up 5.4%) across Member Firms and the group's largest firm, Total Financial Solutions, is benefitting from the impact of new firms joining their network over the last 2 years.

Our independent property broking group, Pacific East Coast was again a strong performer and this is expected to continue in the second half.

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

The strong first half 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 owns approximately 5.4% in Class Limited. This has been an outstanding investment for Countplus following Class Limited's successful IPO in December 2015.

Whilst we are not in a position to make long term projections, the current 2 cents quarterly fully franked dividend is expected to be maintained.

## 2. Financial Highlights

| | | | **% Change** |
|---|---|---|---|
| 1. | Total Net Revenue | $45.52 m | Down 2.9% |
| 2. | Consolidated Operating Profit (EBITA)* | $12.65 m | Up 18.7% |
| 3 | Consolidated Net Profit before Tax | $10.66 m | Up 22% |
| 4 | Consolidated Net Profit after Tax | $6.23 m | Up 2.5% |
| 5. | Profit Attributable to Owners | $5.99 m | Down 1% |
| 6. | Basic Earnings per Share | 5.43 cents | Down 1.3% |
| 7. | Diluted Earnings per Share | 5.43 cents | Down 1.3% |
| 8. | Third Quarterly 2 cents Dividend declared payable 16 May 2016 | ex-date: 26 April 2016 | record date: 27 April 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 December 31st price of $1.79.

## 3. BLUE789 & ADVICE389

A new business was established last financial year, BLUE789 Pty Ltd ("BLUE"), to invest in market leading accounting businesses. This strategy will involve partnering with quality accounting businesses through a shared equity model. This is in contrast to a 100% outright ownership model. In this way, we intend to combine corporate best practice with the entrepreneurial spirit and zeal of business founders and principals. The role of Countplus will be to facilitate and support future business growth and success.

The BLUE initiative is consistent with the direct equity plan (see section 4.3) for existing Countplus subsidiaries where principals and senior employees are able to acquire direct equity in their businesses.

Another new business, ADVICE389 Pty Ltd ("ADVICE") was also formed last financial year to implement a similar investment initiative to BLUE except it is targeting quality financial planning firms. 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 to reduce management costs relating to these businesses. Accordingly, the CEO of ADVICE389's employment ended with Countplus Limited in January 2016 and BLUE789's CEO will cease employment by the end of February 2016. We maintain our commitment to these long term initiatives and will now utilise existing resources within the Company.

## 4. Acquisitions and Investments

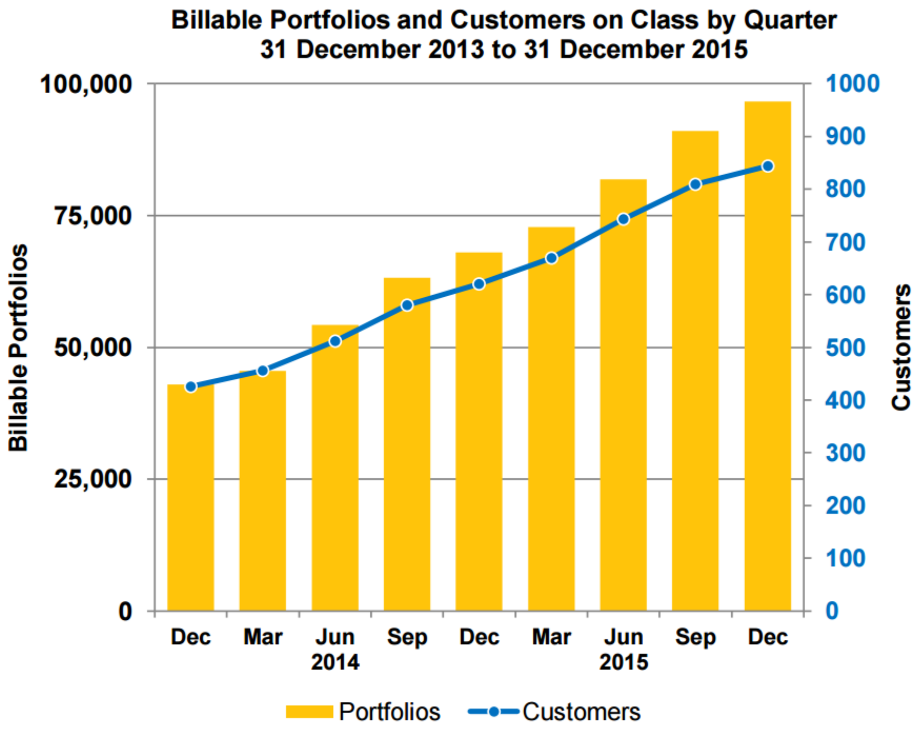
### 4.1 Acquisitions made so far during the 2016 Financial Year

Since 30 June 2015, the following acquisitions and investments have also 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 September 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.

## 4.2 Other Investments – Class Limited

Class




As at the balance date, the Company has a 5.4% interest in Class Limited, a newly 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 the Company following its successful IPO in December 2015.

## 4.3 Future Investments and Direct Equity Plan ("DEP")

As part of Countplus' strategic objective to pursue growth through further business combinations, merger & acquisition activities will continue at 2 levels:

- Acquisition of initial minority stakes in stand-alone businesses at the group level through BLUE and ADVICE (see section 3); and
- "Tuck-ins" or full acquisitions by existing Member Firms at the subsidiary level.

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 now been completed. The proceeds of sale were used to reduce debt, fund further tuck-ins and the new shared equity initiatives, BLUE and ADVICE (see section 3), and take up additional 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.

## 5. Analysis of Financial Results

### 5.1 Group Performance

The table below shows the consolidated performance for the group for the half year ending December 2015.

| | **Dec-15** | **Dec-14** | ***% Change*** |
|---|---|---|---|
| Accounting Related Revenue | 30,519 | 31,596 | *-3.4%* |
| Financial Planning Revenue (net) | 10,267 | 9,737 | *5.4%* |
| Property related income (net) | 2,672 | 3,000 | *-10.9%* |
| Other Operating Revenue | 2,061 | 2,534 | *-18.7%* |
| **Total Net Revenue** | **45,519** | **46,867** | *-2.9%* |
| Non-cash Fair Value Adjustments * | 6,758 | 342 | *n/a* |
| Other Income | 530 | 223 | *137.7%* |
| | | | |
| Salaries & Employment (member firm) | -28,673 | -27,499 | *4.3%* |
| Salaries & Employment (head office) | -1,233 | -663 | *86.0%* |
| Premises Expense | -2,607 | -2,470 | *5.5%* |
| Depreciation Expense | -479 | -563 | *-14.9%* |
| Impairment expense | -1,000 | 0 | *n/a* |
| Other Operating Expenses | -6,636 | -6,068 | *9.4%* |
| **Total Operating Expenses** | **-40,628** | **-37,263** | *9.0%* |
| **EBITA before profit from associates** | **12,179** | **10,169** | *19.8%* |
| | | | |
| **Share of Profits from Associates** | 471 | 490 | *-3.9%* |
| **Operating Profit (EBITA)** | **12,650** | **10,659** | *18.7%* |
| | | | |
| Interest expense (net) | -646 | -564 | *14.5%* |
| Amortisation Expenses | -1,346 | -1,361 | *-1.1%* |
| **Profit before Tax** | **10,658** | **8,734** | *22.0%* |
| Income Tax Expense ^ | -4,426 | -2,653 | *66.8%* |
| **Consolidated Net Profit after Tax** | **6,232** | **6,081** | *2.5%* |
| Other Comprehensive Income (net) | 0 | 0 | |
| **Total Comprehensive Income net of Tax** | **6,232** | **6,081** | *2.5%* |
| **Profit attributable to:** | | | |
| Owners of Countplus Limited | 5,992 | 6,051 | *-1.0%* |
| Non-controlling interests | 240 | 30 | *700.0%* |
| | **6,232** | **6,081** | *2.5%* |

* The Non-cash fair value adjustment during Dec'15 period is related to the revaluation in Class Limited shares.
^ The income tax expense includes $890k relating to the tax deconsolidation of 3 firms under the direct equity plan and $254k relating to the commercial property sale in the prior period.

## 5.2 Balance Sheet

| | Dec'15 | Jun'15 | % Change |
|---|---|---|---|
| | $ '000 | $ '000 | (Jun'15) |
| Current Assets | 29,950 | 33,766 | -11.3% |
| Current Liabilities | 20,248 | 18,893 | 7.2% |
| Current Ratio | 1.48 | 1.79 | |
| | | | |
| Non-Current Assets | 82,931 | 71,673 | 15.7% |
| Non-Current Liabilities | 32,700 | 33,296 | -1.8% |
| Net Assets | 59,933 | 53,250 | 12.6% |
| | | | |
| Net Debt | 17,462 | 20,288 | -13.9% |

## 5.3 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 difficult for our accounting businesses, which is reflected in a reduction of 3.4% in the group's accounting related revenue compared to prior period.

Net financial planning revenue was up 5.4% over the period, and makes up 22.6% (2014: 20.8%) of total net group revenue. 16 Member Firms are franchisees of Count Financial, offering financial planning services.

Property and related services revenues now contribute 5.9% (2014: 6.4%) of total net revenue.

## 5.4 Expenses

Salary & employment expenses relating to member firms was up 4.3% primarily due to increases in headcount, mainly from tuck-ins, internal audit and compliance staff requirements. Head office salary & employment expenses was higher in the first half due to new management and high initial set-up costs for our BLUE789 & ADVICE389 initiatives.

Other operating expenses increased by 9.4% over the prior period primarily due to higher provisioning for doubtful debt and higher office relocation costs.

## 5.5 Net Income (Contribution Margin)

The group net income (EBITA before share of profits from associates) was $12.18m for the period. This equates to a margin of 23.1% for the half year ending December 2015, compared with 21.4% for the corresponding December 2014 period.

### 5.6 Share of Profits from Associates

This item 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.

### 5.7 Amortisation Expenses

Amortisation expenses of $1.35m (down 1.1%) relate 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 line item should reduce over time.

### 5.8 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 action of one adviser and the Company believes the matter is not systemic. TFS is working closely with ASIC in regards to this matter. There is currently no claims against TFS and our Professional Indemnity insurer has been notified of the situation and if a claim was made TFS believes full indemnity would be provided. In addition 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. At this point TFS has provided costs of $170,000 in its full year forecast to cover legal and other related expenses.

## 6. Capital Management

### 6.1 Net Debt

Net debt as at 31 December 2015 was $17.5m. The group's interest bearing loan reduced by $3m due to settlement of commercial property sale and funds from the DEP, as well as lower deferred payments than prior period.

Member Firms remain strong cash generating units and it is expected that future borrowings will be required for acquisition purposes.

### 6.2 Dividends

The third quarterly dividend of 2 cents per share, fully franked, payable on 16 May 2016 was declared on 24 February 2016.

| Dividends Paid 2015/16 | Cents per share | Paid |
|---|---|---|
| 1st Interim Dividend | 2 cents | 16/11/2015 |
| 2nd Interim Dividend | 2 cents | 15/02/2016 |

| Dividend Declared 2015/16 | Cents per share | Payable |
|---|---|---|
| 3rd Interim Dividend | 2 cents | 16/05/2016 |

The final dividend for 2015/16 will be confirmed prior to the end of the financial year and is expected to be paid on 15 August 2016.

Whilst we are not in a position to make long term projections, the current 2 cents quarterly fully franked dividend is expected to be maintained.

### 6.3 Employee Equity Rewards

Countplus rewards its employees for outstanding performance with equity under an Employee Loan Funded Share Plan and Employee Loyalty Plan:

- ***Key Staff Loan Funded Share Plan***
  Directors/ Principals and Senior Managers of Member Firms who achieve earnings growth targets may qualify for an allocation under the group's loan funded share plan. 72 employees received loan funded shares under the plan in 2014 and 95 employees received loan funded shares in 2015.

- ***Employee Loyalty Plan***
  Employees of those Member Firms that achieve earnings growth target and have 12 months' service or more, will be awarded an allocation of $1,000 worth of Countplus shares, prorated for part time employees, under a tax-exempt employee loyalty plan. These shares are granted in April each year.

## 7. Material Developments Post the Reporting Period

As noted in section 4.1, on 15 January 2016, subsidiary The MBA Partnership acquired 51% of the business assets of NSW based firm, Cummings West for a total consideration of $0.38m.

On 9 February 2016, Class Limited declared a one cent unfranked dividend for the second quarter for 2015/16 payable on 7 March 2016.

On 24 February 2016, Countplus declared its third quarterly, fully franked, dividend for 2015/16 of 2 cents per share, payable on 16 May 2016 (record date: 27 April 2016).

There have been no further material developments post the reporting period.

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