CountPlus
Quality Partnerships, Leading Advice

CEO Letter **Matthew Rowe**

Dear Shareholder

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

CountPlus has announced its results for the full financial year 2017. Our financial overview for the 12 months ending June 30, 2017 follows in this letter. The Company reported a Profit from Operations before Tax of $2,163,000 for year end 2017.

Firstly, the full context for these financial results is vitally important. On behalf of the Company, we believe the new financial year 2018 is pivotal for CountPlus (ASX: CUP). Our strategic focus now and in the weeks and years to come represents a turning point for our combined future prosperity.

This letter offers a report into the new operational and strategic initiatives now being driven by the Company. We believe that these actions, backed by firm resolve and adherence to the strategic plan revealed in this letter, position the Company well for future growth.

Against this reality of a lower profit and reduced dividend for the year, this letter serves also to reaffirm a resolute commitment to all shareholders: the turning around of the fortunes of CountPlus. This enables the Company to capture the high-growth potential of Australia's burgeoning financial professional services sector.

Growth

Growth will follow decisive action on key matters that have recently hampered the company's reputation and its financial performance. Our detailed strategic pathway is endorsed by a refreshed, highly-credentialed CountPlus Board. As we re-position the company we are building the capacity to undertake merger and acquisition opportunities at a time of unprecedented change in our core business segments.

When we look at the markets in which we operate:

- Over 33,000 Australian Accounting Firms
- 25 per cent of firms not profitable if Principals paid a market based salary
- 11 per cent of Accounting Revenue comes from SMSF compliance and advice
- 92 per cent of Accounting Firms are actively talking to clients about cloud-based accounting systems
- Accounting Industry revenue of $20 Billion
- 95 per cent of firms employ less than 20 people
- Financial Planning Industry revenue $5 Billion
- Over 50 per cent of firms do not have a succession plan in place. 56 per cent of firm Principals are over 45 years of age

Approximately 73 per cent of industry revenue is servicing the Small to Medium Enterprise (SME), Private Business Owner, SMSF and Personal segments of the market. CountPlus firms operate in these key segments.

We believe there are significant opportunities to grow our core portfolio of 'partnerships' with converged accounting and financial planning firms given the dynamics in this market.

What is our overarching vision for CountPlus? To become Australia's leading network of professional accounting and advice firms, aligned through shared values, mutual success and our sense of community.

Our Core Business

The Company's core business is Accounting, Business Advisory and Financial Planning services. These segments account for 91 per cent of revenue.

Over the next two years the Company will align, build, and grow its core business.
We will do this through our five key strategic drivers:

1	2	3	4	5
Firms	People	Focus	Financial	Community

Success will be measured through a new strategic plan with clear strategic goals and winning steps.

A summary of this plan is provided in this letter.

Converging Core

Accounting, Business Advisory and Financial Planning are converging. This convergence is driven by a powerful combination of regulatory change, market forces and shifting consumer attitudes towards value. This convergence is also being supercharged by enabling technology.

There are market forces for convergence. Stand-alone accounting firms are "cheaper" to purchase than financial planning firms, and the revenue stream characteristics of both are starting to look similar as commissions are removed. Both sectors have an ageing population of owners and succession continues to be a key issue.

Financial Planners are now also regulated by the Tax Agent Practitioners Board. Accountants must now be licensed through the Australian Securities & Investments Commission to offer financial advice. The new education, ethics and standards legislation for Financial Advisers will see significant changes from 2019 in this sector.

The Company sees Accounting firms moving from practitioner to corporate models. Financial Planning is fragmenting. A push has begun for quality financial advisers to leave the major institutions. An estimated 25 per cent of Self-Managed Super Fund (SMSF) clients that left their Accountant in the last 12 months did so to obtain more than tax advice. We also estimate that 69 per cent of new Financial Planning clients are referred by Accountants.

"Co-opetition"

We believe Accountants and Financial Planners in future will be competing (and co-operating) at the same time. They will simultaneously complement each other and they will also compete with one another.

This translates into an investment profile for our core business that contains:

- Annuity revenue characteristics and stable earnings
- Relatively risk-free cash flow, low bad debt levels and no single client or firm represents a significant risk to overall earnings
- Regulatory barriers to providing tax and financial advice
- "Asset Lite" balance sheet- not capital intensive if manage lock up (work in progress and debtors) to best practice
- Diverse income streams from the above core market segments and a national geographic presence

The growth dynamic of our core businesses comes from the significant opportunity in the advice market – the ageing demographics of Accountants and Advisers in need of succession, the growing small business need for advice, a 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 with a disciplined and focused value proposition.

A shift from being owners, to partners

Within our core business we are currently "owners" of these businesses. We know the 100 per cent ownership model has the potential to create a misalignment of interests between our people, firms and our shareholders. Proof of this issue can be demonstrated by only four of our firms currently performing above their respective 2010 watermark level.

Our **CORE** must change so that CountPlus becomes a **PARTNER IN** and **not** an **OWNER OF** Accounting, Business Advisory and Financial Planning firms.

Successful partnerships have agreed team rules, controls and processes in place, aligned interests and each party brings something to the table. There is a sense of perpetuity, of custodianship, with a partnership approach that values long-term, sustainable and client first decision making.

This leads to our strategy statement or 'game plan'.

Our game plan

We provide investment and intellectual capital to leading accounting and advice firms with shared values, a sense of community and an overriding commitment to make a positive difference to the life of every client.

Our core "sweet spot" is a partnership with firms with both financial planning and accounting service lines, specifically: converged firms.

Selecting future partner firms will only be about reinforcing our core.

The CountPlus Family Photograph

The term "fit the family photograph" is an expression that pertains to "suitability", "values" and "fit" of our firms. Decisions to invest in, grow or exit firms will be viewed through this qualitative filter.

At a high level, what **does** the family photograph look like?

- Client-first culture and track record
- Client value proposition in place
- Leadership and strong and developing bench strength of talent
- Strong governance structure
- Strong financial controls and management reporting in place
- An inquiring mind regarding innovation and willingness to embrace new technology and processes
- Accountability and incentive framework in place – linked to balanced scorecard and primarily aligned with our client's interests, then shareholder interests
- Strategic Plan and Business/Operating Plan in place and milestones measured against balanced scorecard
- A strong focus on Culture, People and Values
- Debt Management – financial health of the underlying business and principals
- Growth strategies in place with a growth mindset
- Succession planning in place
- Risk management framework in place
- A quality culture and framework in place. Quality assurance controls and willingness to participate in ongoing peer review process
- Willingness to share best practice and be part of the CountPlus community
- A strong engagement with the respective Professional community
- A world view that incorporates philanthropy and/or pro-bono activities

CountPlus: Revitalisation and Strategic Pathway

Soon after my appointment on 24 February 2017 CountPlus embarked upon a top-to-bottom strategic review. Recommendations from this review helped to form our revised operational strategy – agreed upon unanimously by the Board. As mentioned already, it detailed five primary focus areas, to improve the underlying performance of the Company: Firms, People, Focus, Financial and Community.

Revitalisation is underway. In practical terms, the following details how your Board and executive team have acted to execute on the elements of this strategy.

The graphic *right* illustrates how the Company's revitalisation, based on the five focus areas, comes to life.

What do we want to be?

To become Australia's leading network of professional accounting and advice firms, aligned through shared values, mutual success and our sense of community.

CountPlus collaborates with leading accounting and advice firms for the long-term success of our clients, people and shareholders.

How will we measure this?

Key goals	Firms	People	Focus	Financial	Community
	We provide financial and intellectual investment capital	We invest in people and build leaders	We believe in excellence = process x culture	We will make a decent profit, decently	Our reputation is the sum of what the community thinks of us
Priority outcomes	All principals are aligned owners with CountPlus CountPlus is a participatory investor in professional advice firms We add value through strategy, people systems, structure & governance, culture and leadership	A recognition culture that incentivises the demonstration of our values We assist firms build a bench strength of leaders and stars Our leaders are coaches We are who we promote	We build firms that transcend generations Culture is our competitive advantage We systemise the routine, but we lead people We invest in technology that is additive to our core business	Efficient and disciplined use of capital We invest in people that fit our family photograph We deliver returns to our shareholders by providing advice that makes a positive difference in the lives of our clients	Redefine our network as a complementor to our firms success Engage with Professional Associations for best practice Establish pro-bono and philanthropic team from within our firms
Winning Steps 2017	Successful Firms	Leaders and Stars	Best Practice Enabled	Sustainable and Profitable firms	Engaged Leaders and Teams

Total Financial Solutions Australia

Total Financial Solutions Australia (TFSA) is a 100 per cent owned subsidiary of CountPlus and holds an Australian Financial Services License (AFSL). Through this AFSL, 87 financial planners provide financial planning advice to their clients, through 51 offices across Australia.

These trusted advisers assist clients with $2.3 Billion in life savings and advise on the important risk protection needs of clients, represented by $58 Million of ongoing in-force life and disability insurance premiums.

Unfortunately, TFSA had a rogue adviser whose actions have impacted a large number of his clients and TFSA's business. Mr Brian Dobinson, of Redcliffe, Queensland, was an authorised representative of TFSA between 1 October 2010 and 11 December 2015. The Australian Securities & Investments Commission (ASIC) determined that Mr Dobinson had failed on occasions during this period to act in his client's best interests when providing advice.

ASIC accepted an enforceable undertaking from Mr Dobinson, which permanently prevents Mr Dobinson from being involved in any capacity with the provision of financial services or products.

Following the identification of these concerns, TFSA implemented a remediation program for all clients who had received advice from Mr Dobinson. This program is overseen by an independent expert with the aim of ensuring any clients who were provided advice from Mr Dobinson which was not in their best interests will receive appropriate remediation including, if applicable, compensation.

The remediation program undertaken by TFSA has had far-reaching consequences for TFSA and for our Company. A key focus of the management team has been to improve the governance and compliance underpinnings of TFSA – aimed at assuring appropriate foundations of both a high-quality licensee and a sustainable long-term business model.

TFSA has worked hard with independent consultants, legal advisors, and newly appointed staff and Board members, driving an independent review of the Company's corporate governance and operating practices. This review has been exhaustive and has revealed some key areas requiring attention, including improvement of TFSA's compliance culture and documentation processes.

TFSA has begun to overhaul its compliance documentation, coupled with ensuring best practice processes and culture, throughout the network. New processes are now in place that would have flagged and identified earlier the past poor actions of Mr Dobinson, and allowed the Company to act sooner.

These changes, and more pending, help the new management team to operate and monitor a more robust and compliant corporate governance framework.

People refresh

Several members of TFSA senior management have subsequently left the Company. A new CEO, Andrew Kennedy, was appointed to lead TFSA in May 2017. We are also well advanced in the appointment of a new Head of Compliance for TFSA.

A refresh of the TFSA Board has also taken place and a new Independent Chair, Mark Rantall, was appointed in late January 2017. A new Independent Non-Executive Director, Bruce Foy, also joined the TFSA Board in August 2017.

TFSA boasts a significant number of exceptional, talented advisers within its ranks. The changes being made to TFSA's corporate governance will strengthen the business and client offerings of each of the professional firms it serves in the TFSA network.

Client remediation

As a result of the additional licence conditions imposed on TFSA effective 25 September 2015, TFSA is currently conducting an ongoing review of financial product advice provided by Mr Dobinson for the period commencing 1 January 2013 to 11 December 2015.

The review and remediation program involves approximately 520 small retail clients. The objective of the program is to assess the appropriateness of the advice provided and if the advice is found to be inaccurate, incomplete or inappropriate then TFSA is to restore the financial position of each of these clients.

TFSA has reached an agreement with its professional indemnity insurer to provide a contribution of $3,250,000 towards expected financial detriment that affected clients may have suffered as a result of the advice provided.

TFSA has finalised the methodology to be undertaken in order to assess the quantum of any client detriment and is currently assessing that detriment.

TFSA has previously advised that it provisioned $530,000 at 30 June 2016 to cover the cost of assessing all advice provided. A further $1.187m has been provided during the financial year ended 30 June 2017 to cover any additional anticipated costs (net of any contribution from the professional indemnity insurer) of the review and remediation program, including costs associated with assessed clients, where it is considered probable that there will be an outflow of resources. Costs of $835,000 have been incurred during the year, and therefore the balance of the provision is $882,000 at 30 June 2017. No provision has been recognised in respect of those clients where it is not considered probable (but still possible) that there will be an outflow of resources.

Much attention has been placed by the respective TFSA and CountPlus Boards on the effective oversight of the remediation program in place for the clients of Mr Dobinson. The primary concern is to ensure that all past advice received by clients is reviewed, and where relevant, that necessary compensation be paid if the advice was not appropriate. A significant amount of work has been undertaken in the last six months to deal swiftly with these complex matters.

At the time of writing, the Company has further estimates on compensation to be paid, along with legal costs, independent expert costs and other related costs to expedite this matter.

In summary;

Provision made 30 June 2016	$ 530,000
Insurance proceeds	$3,250,000
Provision made 30 June 2017	$1,187,000
Less costs incurred in the 2017 financial year	$835,000
Amount available toward remediating the Dobinson matter	$4,132,000

As notified in prior ASX market announcements, the Company has been in negotiations with its Professional Indemnity insurer over coverage concerning the Dobinson matter. The Company has recently negotiated a successful commercial settlement with its insurer for claims made in relation to Mr Dobinson's actions.

After considering this commercial settlement, and working through several assumptions in what is a very complex matter the Board does not believe, based on estimates made to date, that the company will require any further provision above that made to date for the remediation of Mr Dobinson's clients.

Summary – TFSA

TFSA has a new Board and management team which will ensure TFSA's corporate governance will strengthen the business and client offerings of each of the professional firms it serves in the network. We have made significant changes to the TFSA operating model to reflect our desire to build a high-quality licensee offering a sustainable business. These changes will have a short-term impact on TFSA as we transition to a new business model. The CountPlus Board therefore believe it is prudent to write down the carrying value of TFSA by $2,700,000.

The CountPlus Community

Firms

Direct Equity Plan (DEP)

CountPlus understands that alignment with our people, firms, clients and shareholders is an important part of our future strategic direction. A new DEP framework has been approved by the CountPlus Board and is being implemented so that CountPlus becomes a **PARTNER IN** and **not** an **OWNER OF** Accounting, Business Advisory and Financial Planning firms. These changes are designed to align member firms with CountPlus' goals, and improve overall performance. In line with this, the company has created a strong merger and acquisition capability using independent experts. Productive discussions have been held with several CountPlus firms over their DEP options.

Non-core divestment

CountPlus has undertaken a comprehensive review of all member firms. This review focused on the five key drivers of client, people, focus, financial and community. It highlighted our best performing firms looking at a matrix of qualitative and quantitative factors, as well as highlighting firms that for various reasons did not fit our strategic plan. Where CountPlus cannot offer strategic value enhancement these firms will not form part of our renewal program. Our strategic review highlighted our preference to invest in firms that are converged Accounting, Business Advisory and Financial Planning businesses.

We previously announced the sale of our equity in financial planning business CBC Financial Advisers in May 2017. We have also sold our 100 per cent interest in CountPlus National Audits as we did not view owning a relatively small-scale Audit business as consistent with our strategic preference to own combined accounting and financial planning businesses.

Similar strategic thinking sat behind the sale of our interests in financial planning only business McQueen's Advisory and Financial Momentum. We sold our interests back to the existing principals and continue to enjoy a strong relationship with these firms and TFSA.

The announcement of the sale of our interests in CountPlus National Audits, McQueen's Advisory and Financial Momentum was previously made public on 14 July 2017.

The sale of the four firms listed above will realise funds of $6,151,000 which will be used to reduce our debt. These four firms contributed a total net loss of $96,000 to CUP for year end 2017.

Efficiencies

In the last quarter of 2017 the Company merged Sydney-based Wearne & Co and CountPlus One. Richard Felice from CountPlus One was appointed Managing Director of the merged business and a new strategic plan has been put in place that will deliver significant benefits for the clients of the merged firm. In addition, the new leadership team of this merged firm has a strong focus on the team and culture through a renewed alignment with the values and team rules now in place within the CountPlus community.

People

Great people and engagement

In line with our 'quality partnerships, leading advice' promise, CountPlus seeks to partner with leaders while promoting ***leadership qualities*** within our existing network, and future member firms. In recent months, we have:

- Engaged with the leaders in the CountPlus community and agreed on a set of values and team rules
- Sought feedback from and listened to the Principals within our network
- Welcomed the appointment of a new Chairman of CountPlus, Ray Kellerman
- Welcomed a company Board refresh, including the recent appointment of Kate Hill with her deep accounting practice experience to the CountPlus Board
- Welcomed Board renewal at TFSA
- Welcomed Angus Finney as General Counsel and Company Secretary
- Appointed a new Managing Director of Kidman's Partners, Ross Hedrick
- Appointed a new Managing Director to the merged firm of CountPlus One, Richard Felice
- Appointed a new CEO of TFSA, Andrew Kennedy

Focus

Quality processes and systems

Best practice is the mantra for the Focus element of our strategy – from the systems and processes we generate, to the culture of excellence we seek to seed and foster within our member firms in relation to both client and operational best practice. In recent times, among other area of focus, the Company has:

- Tightened operating protocols and procedures in relation to working capital, debt and other fiscal metrics
- Implemented controls and reporting standards for each member firm based on key metrics
- Introduced merger and acquisition (M&A) capability in conjunction with independent experts
- Engaged with growing client demand for cloud based digital solutions

Financial

We have released our preliminary financial statements to the ASX and reported a consolidated net profit before tax of $2,163,000 for the year end 30 June 2017.

Core underlying operating profit (after excluding the effect of the investment in Class and non-cash impairments) was $8,625,000 which is an improvement on the prior year of $8,189,000. The Directors note this core operating profit has been achieved at a time of significant change in the company as we define, align, build and grow our core business.

The new management team has been focussed on working with our firms to improve the key financial and strategic drivers within our partner firms.

This renewed focus has led to an improvement in performance since February 2017. This can be borne out in the last six months to 30 June 2017 where accounting revenue for the underlying firms increased by 6% compared to the same period in the 2016 financial year.

Profitability and capital management

Ethics and profit should be complementary and sustainable. The company has taken measures to position itself well for creating sustainable value. We wish to make a decent profit, decently. Recent endeavours include:

- Lock Up (Debtors and WIP) is at the lowest it has been since 2011, at 102 days. Our goal is to achieve 85 days by the 30 June 2018. Work in progress at the 30 June 2017 is the lowest it has ever been since CountPlus floated on the ASX, consistent with our new approach to improving the operational efficiencies in our firms
- Introduction of a National Partnership Arrangement with Class Super – a saving to member firms of $115,000 per annum
- Debt reduction: The company's net debt position, as at 31 December 2016 represented interest-bearing debt of $25,603,000. At 30 June 2017, the company debt position had reduced to $13,551,000. The reduction was through the sale of the company's investment in Class shares, the sale of member firms and a more methodical approach to working capital management
- At the date of this letter, our debt had reduced further to $6,680,000 as we received settlement from the sale of equity in our firms and we have now sold all remaining Class shares
- We anticipate an improvement in 2018 operating profit
- Prudent fiscal management has helped CountPlus to not only forecast a significant reduction in debt but the ability to recycle capital in support of the Company's growth strategy. The Company seeks to invest in a growing pipeline of firms that meet its investment approach and revised quality criteria

Community

Strong identity by simply doing what is right

The Company and its member firms' reputation will reflect the combined effort and systematic changes now occurring. Already, the focus on Community has yielded strong reputational dividends, with the recent announcement of various initiatives:

- In honour of Company founder, Barry Lambert, CountPlus has announced the creation of the Barry Lambert Harvard Business School Scholarship. The scholarship acknowledges Mr Lambert's significant contribution over the last 50 years, both to the Company and the broader financial services sector
- David Reeves, Managing Principal of Cooper Reeves, is the inaugural winner of the Barry Lambert Harvard Business School Scholarship and commences study in February 2018
- Each year, the Board will choose one recipient from within the CountPlus senior network to undertake the "Leading Professional Services Firms" Executive Education program at Harvard Business School in Boston, USA
- A Principals leadership forum was held in April, including all member firms, DEP firms, Associate firms. This was the first of its kind in CUP history

Board Update

The founder of CountPlus and former Chairman Barry Lambert has indicated his intention to retire from the Board on 30 September 2017.

Longstanding Independent Non- Executive Director and Chair of the Audit and Risk Committee Graeme Fowler will also be retiring from the Board on this date.

Under the new Non-Executive Chairmanship of Ray Kellerman, the Board recently welcomed new Non-Executive Director Kate Hill to the Board. Ms. Hill was appointed to the Board on 26 June 2017. Among her many business achievements, Ms. Hill was the first female partner admitted to the Deloitte Australia Board of Partners (2000-2002) and the first female member of the Deloitte senior leadership team in Australia.

After the respective retirement of Barry Lambert and Graeme Fowler the CountPlus Ltd Board will therefore be comprised of Ray Kellerman (Independent Non-Executive Chair), Alison Ledger (Independent Non-Executive Director), Kate Hill (Independent Non-Executive Director) and Matthew Rowe (Managing Director and CEO).

Outlook – align, build and grow

Today, we have confirmed our guidance that the Company is in a period of transition and turnaround, driven by a top to bottom strategic review. We are in a transformation period.

CountPlus is transforming its leadership, its operating model, its purpose and its view of how the Company aligns with its primary operating assets – our underlying member firms.

This transformation begins with our new purpose: collaboration with leading accounting and advice firms - for the long-term success of CountPlus clients, people and its shareholders.

We will achieve this through our new strategic game plan of providing investment and intellectual capital to leading accounting and advice firms with shared values, a sense of community and an overriding commitment to make a positive difference to the life of every client.

Over the next three years the Company will **align, build and grow** its core business.

We will do this through our five key strategic drivers - Firms, People, Focus, Financial and Community.

We will measure our success through a new three-year plan with clear strategic goals and winning steps.

Thank you for your loyalty as a CountPlus shareholder.

Matthew Rowe

Matthew Rowe
Chief Executive Officer

What we want to be

To become Australia's leading network of professional accounting and advice firms, aligned through shared values, mutual success and our sense of community.

Why we exist

CountPlus collaborates with leading accounting and advice firms for the long-term success of our clients, people and shareholders.

Our game plan

We provide investment and intellectual capital to leading accounting and advice firms with shared values, a sense of community and an overriding commitment to make a positive difference to the life of every client.

We value

Trust	that is earned through character, competence and coachability
Commitment	we do what we say we will do
Teamwork	we believe in the collective wisdom of the team

The CountPlus leadership way of working (team rules)

I am willing to hold myself and others to account for...

- listening
- being open, respectful and accessible
- placing the team first
- calling behaviour – we only get what we accept or tolerate
- having a positive default position

... to ensure we always inspire, encourage and collaborate

CountPlus
Quality Partnerships, Leading Advice


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