

**ASX ANNOUNCEMENT: CUP**  
**Wednesday, 13 November 2012**

**Countplus Limited**  
**ANNUAL GENERAL MEETING**  
**CEO ADDRESS**



Thank you Mr Chairman, good morning ladies and gentlemen.

I will be providing an overview of our 2012 annual results and an operational update for the group.

### **Countplus & its Member Firms**

Following our recently announced acquisition, Countplus is now made up of 21 Member Firms:

- 19 Members offer traditional tax and accounting services to individuals and small to medium businesses.
- 19 Members offer financial planning services, including the financial planning dealer group, Total Financial Solutions of 68 advisers.
- One firm, Pacific East Coast, as well as an accounting business, has a direct property division, as well as a responsible entity and management division.

Based on our 2012 results, accounting and business services (including audit and SMSF administration) make up 71% of net revenues with financial planning 18% and the remainder legal services, property and lending services. 17 of our Member firms conduct their financial planning as franchise members of the Count Wealth Accountants group. Total Financial Solutions, has its own Australian Financial Services licence but has a referral arrangement with Count Financial to provide insurance advice services to clients of Count member firms.

Our group consists of successful, profitable and well-established businesses. The existing management teams of each Firm at the time of Countplus acquisition remain in charge and incentivised to continue to grow.

Our goal is develop into a pre-eminent accounting and wealth advice network, achieved through the sharing of ideas, practices and processes amongst already very successful businesses, as well as joining with new partners with similar track records of delivering outstanding quality service and advice to clients.

## **2012 Annual Results**

Full details of the annual results are detailed in the 2012 Annual Report so I will provide only a high level summary this morning.

The group generated a consolidated operating result, expressed as earnings before interest, tax and amortisation of \$19.22m up 7%. Consolidated net profit after tax was \$11.31m down 12%, however up 19% when non-cash fair value adjustments are excluded.

4 quarterly dividend payments totalling 12 cents were paid.

This is a solid result in a challenging environment where business confidence outside of the resource centre is generally weak and the climate for investing, while beginning to improve, is still in recovery.

## **Group Performance – Member Firms**

Looking at the group performance of Member Firms, net revenue of in excess of \$90 million is primarily generated from accounting and business services. Financial services make up 18% with legal services and property related income only a small component.

Acquisitions have contributed to revenue and expense growth, 7 “tuck-in” acquisitions were completed during the year. Small organic growth was generated in both the core Accounting and Financial planning revenue lines.

Salaries and employment related costs remains the largest contributor to expenses.

The implementation of new group provisioning policies did have an impact in the growth in our expenses. A new debtor provisioning policy added \$0.9 million and a new long service leave provisioning calculation added \$0.6 million. These are one-off adjustments caused by the policy implementation not expected to recur.

The contribution margin of 21% (net member income as a proportion of net member revenue) is healthy and is an indicator of the quality of the Member Firms. There is some capacity to generate further efficiencies as the group begins to collaborate more and outsource sub scale services to other Member Firms. However, the primary driver of organic growth in the group will come largely from steady revenue growth rather than any large scale cost reductions.

The diversity of the group was apparent in our 2012 results. Our Queensland firms have bounced back strongly following the 2011 year, which was disrupted by natural disasters.

Some of our Members have benefitted from the strength of the resources sector, most notably our Perth (WA) based Bentleys franchise and our Newcastle/Hunter (NSW) firm, Evolution Advisers, both of whom delivered strong results after a comparatively weak 2011.

Many of our regional firms have faced prolonged periods of drought as well as flooding in recent times but also have benefitted from better farming conditions that have fed right through their local economies. One of our most consistent performers remains our regional Southern NSW member firm, HMA Twomey Patterson.

Our Sydney CBD firms in particular by contrast, have had to deal with quite weak business confidence in the city. While clients are being retained and regular compliance work remains, the demand for specialised transactional work has been slow.

Financial planning remains a significant contributor to our revenues but like most of the industry, our Firms have felt the effects of weak investment markets making clients wary of equity investing in particular. Our Firms continue to focus on strategic advice and have used this opportunity to focus on addressing insurance, an area in which there remains tremendous potential.

Our largest financial planning business and one of our largest group Members, Total Financial Solutions (TFS) were able to add to their adviser numbers during the year as well as generate organic growth which is especially pleasing. This was assisted by its focus on insurance advice, which accounts for more than half of all new business income.

A distraction to our result was a restructuring of a legal subsidiary in Perth during the year. Legal services are unlikely to be a growth area of business for the group.

Head Office made a neutral contribution benefiting from its relationship and services agreements with Count Financial, which remain in place following its acquisition by the Commonwealth Bank.

Tax expense reduced by 10% due to benefits accruing to the tax consolidation of the group. Going forward we expect our effective tax expense to closely align with the corporate tax rate.

Consolidated cash earnings was \$13.6m (up 17%).

Amortisation expense (net of tax) was \$2.5m. Amortisation relates to client relationships identified on acquisition, an intangible asset. The annual amortisation charge on the existing assets will reduce in future years.

In the prior year, the group benefitted from very significant fair value adjustments on the consolidation of its member firms. This was in excess of \$3.2m net of tax. As these were not repeated in 2012, our reported consolidated net profit after tax reduced by 12%.

### **Balance Sheet**

Our balance sheet is in a strong condition with current assets exceeding \$53 million and the current ratio of current assets to current liabilities over 1.3 times. Member Firms cash flows are generally strong supporting the payment of quarterly group dividends.

Net debt had increased over the prior year due to the funding of acquisitions, particularly the Pacific East Coast group but was still very low at \$2.4m. At balance date we were supported by a \$10 million debt facility with Count Financial. I am pleased to announce that this month we have rolled this facility in a new larger \$15 million facility (not fully drawn) with the Commonwealth Bank. This ensures we can continue to take advantage of acquisition opportunities as they arise.

### **Group Goals**

Our goals are unchanged as can be summarised as follows – first, to build a track record as a listed company for delivering consistent profit growth. The second naturally follows and that is to become the acquirer of choice for all quality accounting and wealth advice businesses. Third, to become an employer of choice, particularly for young aspiring professionals and managers in the accounting and advice industry that will in turn provide the next generation of our group's leaders.

In relation to growth, it's important to emphasise that the Member Firms have not been acquired on the basis of size or geographical location but on their ability to continue to deliver organic growth. Our accounting based firms have all demonstrated a strong track record of delivering this. Our accounting firms benefit from the bond of trust that accountants have with their client, which remains a distinguishing feature of the profession developed through the provision of a personalised quality service. In a recent Roy Morgan survey that asked which professions had the highest standards of ethics and honesty, accountants rated well above other professionals

including financial planners, lawyers and stockbrokers. For many of our firms, they are the primary adviser to their clients, a unique position much envied by other professions.

As the main client base of our accounting firms are SMEs (small and medium sized businesses), they are effectively plugged in to the engine room of our economy, with our diversity ensuring we are not dependent on any single portion of the market or geographical region. This is a key strength of the group as illustrated in our results this year.

Related to this is the booming self-managed superannuation fund sector which very much remains the preserve of the accountant. Our group has nearly 3,000 funds with continued strong growth in new fund numbers. Countplus remains ideally placed to continue to take advantage of this sector via servicing, advice and support.

What is critical is not to interfere with a winning formula and that means leaving day to day management and firm strategy in the hands of the principals that made that business successful. This is key to the Countplus model, Head Office must not impose additional burdens on the business. Via its relationship and service agreements with Count Financial, which will continue to remain in place post their acquisition by the Commonwealth Bank, this can be achieved.

In relation to acquisitions, we continue to seek more quality professional services businesses to partner with. Our Member Firms completed 7 acquisitions during the year, what we call “tuck-ins”. I’ll talk more about these in a moment.

A 2011 survey by research and consulting firm, Beaton, on Australian professional services firms found that the 3 most important reasons given by employees in considering a place to work were 1. Opportunities to do challenging, interesting work; 2. Great work/life balance and; 3. Opportunities to learn and develop.

Countplus is ideally placed to attract and retain quality people as our firms are able to effectively offer the best of both worlds, all the advantages of working at a medium sized business but with the support of a large listed business – it is a unique proposition! – The opportunity to work in a medium sized business, perhaps in a suburban or regional centre that suits one’s lifestyle, with usually less “red tape” than what you would expect at a big corporate firm, with access to principals to learn and develop and a greater capacity to influence decision making. Where promotion is

possible and is not dependent on financing (as for most small to medium sized firms) but on ability and merit. This all comes with the backing of a strong parent that will provide support for growth and enable top performers to be rewarded with equity in a listed company.

Since listing, Countplus employees (subject to service conditions) have received 2 allocations of shares under a tax-exempt loyalty plan. A loan funded share plan will make its first allocation before the end of this year (and then annually) with allocations dependent on each Member Firm's performance.

We are likely to see the demise of many small accounting and wealth advice businesses that are not able to offer what the best young professionals are looking for. This is likely to provide further acquisition opportunities for Countplus Member Firms.

### **Advantages of Joining Countplus:**

Countplus continues to seek to partner with more quality professional services practices around Australia.

- Enabling businesses to be part of an ASX listed company - Countplus (ASX: CUP);
- Access to the expertise of the wider Countplus Network, enhancing internal efficiencies;
- Access to capital to fund growth (such as "tuck-ins") and working capital;
- Opportunity to benefit from lower cost and access to better quality supply inputs over time;
- Assist with succession planning and funding concerns; and
- Aligned ownership and incentive models to attract and retain quality employees.
- Regular income stream (paid in the form of quarterly dividends);

Most importantly, in the Countplus aggregation business model, management is decentralised: there is no requirement for stand-alone firms to rebrand; Principals will retain management responsibility of their firm; there is minimal change to strategic direction and minimal change to day-to-day operations, allowing businesses to operate largely independently.

There are 4 different opportunities for professional services firms to become involved in Countplus:

### **1. Low Involvement**

We have an online subscription service, ChangeGPS that provides accounting firms with “best practice” tools, templates and showcases technology solutions. This was developed and is supported by our Member Firm, Change Accountants with close to 150 subscribers. This will become a basis for an accounting franchise we expect to launch in the next few years where we assist firms to build a more valuable business. This involves no future commitments or lock-ins. In time, membership of this franchise could become a badge of quality and innovation in the accounting profession. Importantly, this will provide an optional avenue for firms to be acquired by Countplus at some time in the future.

### **2. Part Sale (Minimum 30%)**

This alternative is for businesses that may be in need of capital for a variety of purposes such as; buying out a retiring partner, to fund an acquisition or to reduce debt.

Countplus would initially acquire an interest of up to 30%, which could increase but with no obligation. If the business is performing strongly without the need for further capital investment, Countplus could simply remain as a ‘silent’ minority shareholder.

### **3. “Tuck In” Sale for Smaller Businesses**

This is where one of our existing Member Firms acquires the business directly. There is no set size requirement under this option, the only requirement is compatibility with one of our existing Firms.

### **4. 75 – 100% Purchase of Larger Stand Alone Businesses**

These would need to be quality firms with management and succession plans in place. These firms would remain as stand-alone businesses, similar to the 20 Firms that we currently own. The preferred minimum size would be profits of more than \$1.5 million. A purchase of less than 75% would be considered for businesses with after tax profits of more than \$5 million.

**The key criteria for acquisitions are quality NOT size. We are seeking to partner with businesses that are already profitable and successful in their own right.**

## 2011/2012 Acquisitions

Over the last year, 7 acquisitions were completed. The 2 largest were the Western Sydney accounting and financial planning practice, Loughhead Roberts (now Countplus LR) and the financial services group, Pacific East Coast.

Loughhead Roberts was a 2 partner business located in Parramatta in the western suburbs of Sydney. Countplus Member Firm, Countplus MBT (based in St Leonards, in the lower north shore area of Sydney) was looking for an opportunity to expand into the growing population centre of the north-western corridor of Sydney, an area in which Countplus did not have a presence. The partners of both businesses were well known to each other, both being long-term financial planning franchise members of the Count Wealth Accountants group.

The business now enjoys a number of shared services with Countplus MBT, freeing resources to set the business on an expansion path. The merger has also provided more opportunities for team members.

The Pacific East Coast (PEC) Group has operated for over 30 years with offices now in Melbourne, Sydney, Brisbane, Canberra and Perth. There are three divisions within the PEC Group; Direct Property Division; a CPA Accounting Division; and a Responsible Entity and Management Division.

PEC's property division provides research and broking services on new residential property developments to its National Alliance Member Network comprising in excess of 600 members, mainly accounting and financial planning firms and have assisted over 8,000 investors invest in excess of \$3 billion into property.

While the Pacific East Coast core property business is different to our other Member Firms, it is an example of what we call a "bolt on" acquisition as they provide services that complement accounting businesses very well.

In March 2012, Canberra Member Firm, Beames & Associates acquired an accounting practice with a fee base of approximately \$1 million in regional southern NSW.

Also in March 2012, our other Canberra Member Firm, Achieve Corporation acquired a payroll contracting business in Melbourne, complementing their existing business in this area.

Since the end of the year we have also announced a 25% investment in South Australian based professional services firm, Hood Sweeney.

Hood Sweeney provide accounting, financial procurement, wealth management and information technology advice to individuals and small to medium sized business through its 3 offices in Adelaide, Whyalla and Kadina. They have 86 staff members and last financial year had revenues in excess of \$16 million.

The transaction represents the first made under Countplus' new progressive acquisition model, in which an initial minority interest is taken. The model allows Principals to retain a direct interest and can more easily facilitate the entry of new Principals into an equity position, as well as reducing acquisition risk for Countplus.

### **Exciting Journey ahead**

So growth comes from 3 elements :

The organic growth of the Member Firms as they expand, bring on new clients and offer more services –Pacific East Coast's property research services are an example.

Well targeted EPS accretive acquisitions, usually "tuck-ins" made by our member firms which usually contain lower risk but also more investments made under our progressive investment model.

And greater efficiency - Our Firms are already very efficient by industry standards, reflected in our healthy EBIT or contribution margins, there is also some scope for us to take advantage of our scale. For instance, we have already established a group professional indemnity insurance policy that has reduced group premiums by more than 20%.

While still early in our life as a consolidated Group, Member Firms are beginning to collaborate with each other, whether it be sharing practice management ideas, or using services from across the Group. This collaboration has been in a number of areas, including audit services, financial planning back office, insurance advice and marketing support. Our Firms are able to draw on the resources of a Network with over 600 employees and nearly 70 affiliated advisers through the TFS adviser group.

Countplus may be a new listed company but our Member Firms have long track records of success, run by Principals who remain in control of their practices and as our largest shareholder group, are motivated to continue that success. Countplus has an exciting future ahead as we establish a track record of performance and develop into a group regarded for its high standards of excellence in advice and practice management.

I would like to thank our Principals and employees of all our Member Firms for their hard work and dedication to providing high quality services to their clients and their contribution to what I consider to be some of the finest professional services businesses in the country. It is the success of these businesses that will drive the ongoing success of the group.

I would like to close by thanking the Directors and my team for their support and hard work over the year.

Michael Spurr  
Chief Executive Officer/Managing Director  
Countplus Limited