ASX ANNOUNCEMENT: CUP
Wednesday, 26 November 2014

Countplus Limited
ANNUAL GENERAL MEETING
CEO ADDRESS

Thank you Mr Chairman, good morning ladies and gentlemen.

I will be providing an overview of our 2014 annual results and an operational update for the group.

Countplus and its subsidiaries (the "Group") is essentially a portfolio of independently run businesses with a presence in every mainland capital city and some larger regional centres. There are 20 Member Firms: 17 Members offer traditional tax and accounting services to individuals and small to medium sized businesses (SMEs); 16 offer financial planning services as franchise members of the Count Wealth Accountants group; Total Financial Solutions, a financial planning dealer group consisting of 95 advisers; and Pacific East Coast, a property services group. A 23% interest is also held in South Australian professional services group, Hood Sweeney and a 30% interest in a specialised book keeping services business, My Accounts which operates in Australia's eastern states.   Our Brisbane based, wholly owned subsidiary Change GPS is a subscription based business with over 200 business subscribers that provides "best practice" tools and templates to assist accounting firms nationwide.

Based on our 2014 results, accounting and business services (including audit and SMSF administration) make up 65% of net revenues with financial planning contributing 25% property 5% and the remaining income being generated by subscription fees and other ancillary services.

Our goal is to 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.

2014 Annual Results

Full details of the annual results have been included in the 2014 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 $19.1m down 0.6%. Consolidated net profit after tax was $11.31m up 2.1% and diluted earnings per share up 1.6%.

Four quarterly dividend payments totalling 12 cents were paid.

Our result was assisted by the final loyalty payments from the Commonwealth Bank of Australia ("CBA") to the 16 Members of our Group who are financial planning franchisees of Count Financial.

The best performing firms in the Group this year and the largest profit contributors were our financial planning dealer group, Total Financial Solutions and the property based group, Pacific East Coast. Of our accounting based businesses, Cooper Reeves and Specialised Business Solutions based in Brisbane and The MBA Partnership in the Gold Coast were our strongest performers. Melbourne based business, Kidmans Partners and regional NSW business, 360 Financial Advantage also delivered good results.

Negatively impacting our operating results were; the sale of one of our Perth subsidiaries, relatively flat accounting revenue growth, as well as some restructuring costs.

Excluding the contributions from the sale of the subsidiary, accounting revenue increased by 4.6% mainly driven by new acquisitions (which I will discuss shortly). This reflects continued challenging conditions faced by most of our accounting based Member Firms. Compliance based revenue remains stable but higher value advice based work remains patchy. Some expected improvement stemming from the Federal Election last October, in small business sentiment, the core client base of our Members, did not materialise, however there are early signs of improvement for 2015 supported by the prolonged period of low interest rates. Some additional provisioning was also booked against accounting debtors under the Group's conservative provisioning policy, which is based on the age of each outstanding debt. We expect these to be at least partly reversed in 2015.

Financial planning revenue is derived by the financial planning businesses within our Member Firms including Total Financial Solutions (TFS), who hold an AFSL licence. Financial planning based revenue, adjusted for the sale of the subsidiary and the CBA loyalty payments noted above, increased by 11.4% and makes up 22% of total net operating revenue. This result was supported by increasing confidence amongst retail investors, which has remained relatively weak since the global financial crisis. TFS has also been successful in recruiting new advisers to its network.

Property and related revenue is generated from Pacific East Coast. Property and related services revenue increased by 22% during the year. Pacific East Coast's continued access to high quality developments and its tested research process developed over 30 years, supported by continued strong demand in the residential property market, have contributed to a record property sales result for the Group of $183 million in 2014.

Excluding the impact of the sale of the subsidiary and the loyalty payments described above, net operating revenue increased by 7% over the prior year.

Employment expenses increased by 0.7% over the prior year and made up the largest proportion of expenses during the year. Excluding the impact of the subsidiary sale, employment expenses increased by 9% with new acquisitions contributing. Operating expenses (excluding premises, depreciation and amortisation) increased by 8% due primarily to increased provisioning for doubtful debts under the Group's conservative debtor provisioning policy as well as additional professional fees associated with the Group's proposed direct equity plan and sale of subsidiary.

Adjusting for the impact of the sale of the subsidiary, operating profit (EBITA) increased by 6.8%.

Interest expense was higher following further investments, acquisitions and deferred consideration payments. Profit before tax growth was slightly higher than after tax due to some tax benefits taken in the prior period.

Balance Sheet

The financial position of the Group remains strong with a current ratio (current assets/current liabilities) of 1.6x at the end of the period. Net debt increased from $9.3m to $12.7m due to acquisitions/investments made during the year and also due to deferred consideration payments related to previous period acquisitions, offset by cash received from the sale of the subsidiary, Lawrence Business Management (LBM). In order to continue to take advantage of acquisition and investment opportunities that arise and the fact that the Group's dividend payout ratio exceeded

90% of cash earnings in 2013/14, the Board have determined to reduce the quarterly dividend to 2 cents, beginning with the interim dividend payable in November 2014. This strategic decision should enable growth to be funded without substantially increasing debt levels or issues of new capital.

New Partners

We continue to consider and take advantage of opportunities to grow our network, either through partial investment or full acquisitions.

This year, the Group made 10 successful acquisitions and investments, ranging from relatively small parcels of accounting fees, accounting and wealth advice practices and technology businesses. These acquisitions and investments included:

Our Northern NSW based Member Firm, 360 Financial Advantage (formerly 360 Financial Vision) completed a merger with the Advantage Accountants group in Port Macquarie, NSW, an accounting and financial planning business.

Our Melbourne based Member Firm, Kidmans Partners acquired a 2 partner accounting and audit business, Taylor Partners.

Sydney based Member Firm, Countplus One completed the acquisition of Peak Financial, a financial planning business based on Sydney's northern beaches.

In December 2013, Hood Sweeney, a South Australian professional services firm in which Countplus has a minority interest, merged with an Adelaide based accounting and wealth advice firm, Shearer + Elliss. The combined business now has a revenue base of over $25m annually, putting it inside the top 35 accounting practices nationally. Countplus increased its interest in Hood Sweeney following a further purchase of shares in April 2014.

In October 2013 we made a $2.15m investment in Super-IP, the parent entity of Class Super, a self-managed superannuation administration platform now used by all our accounting based Member Firms. Class has grown its contracted SMSFs from 45,000 funds (at the date of my 2013 report) to over 63,000 funds. We increased our investment in May 2014 to a reach a current shareholding of 3.9%. Super-IP intends to list the business on the ASX in the next few years.

During the year, TFS developed a plan to selectively invest in some of their affiliated planning practices. In July 2014, a 40% investment was made in Financial Momentum, a Victorian based business that has been part of the TFS group since 2001. Last month, a 49% investment by TFS was made in their largest affiliated firm, McQueen Wealth Management, a Melbourne CBD financial planning practice.

Countplus remains committed to seeking to partner with more quality professional services practices around Australia as well as invest in complimentary businesses to our core accounting and wealth advice service offerings.

There are 4 different levels:

1. Partnership in Building a High Performance Firm

We have an online subscription service, ChangeGPS that provides over 200 accounting firms with "best practice" tools, templates and showcases technology solutions. It aims to help practitioners build a high performing business. There are no future commitments or lock-ins. Firms that utilise more innovative and efficient solutions to streamline their business processes are likely to be more attractive to Countplus for investment or acquisition purposes as they become more successful in the future.

2. "Tuck-in" Acquisitions

This is where one of our existing Member Firms acquires another business directly. There is no minimum size requirement, the only criteria is compatibility with one of our existing Member Firms. During the last financial year, Countplus Member Firms completed 7 "tuck-ins".

3. Progressive Investment

Countplus, either directly or through its Member Firms, may also take a minority investment in high performing businesses with the opportunity to increase over time.

We have previously announced an expansion of a progressive investment model, currently called "C2". Should sufficient scale of investments in high quality large accounting based businesses be reached, Countplus intends to aggregate these investments in a new ASX listed entity. This new aggregation business would be made up of part interests (51%-60%) in these successful firms. Principals of these firms will retain direct ownership of 40-49% of their business after listing, retain management control and importantly, have an initial holding in the proposed new listed entity. Countplus will remain "C2"'s largest minority shareholder.

4. Investments in Complimentary Businesses

The Group also seeks to invest in businesses that complement our core accounting and wealth advice service offerings. The investment in Super-IP (Class Super) is an example. Property services group, Pacific East Coast, acquired in 2012, has a national alliance network of accounting and financial planners and was one of the Group's top profit contributors in 2014. Change Accountants, one of our Brisbane based Member Firms also has a 30% interest in My Accounts, a professional bookkeeping business operating in Sydney, Melbourne and Brisbane.

The key criteria for investments and acquisitions are quality. We seek to partner with businesses that are already profitable and successful in their own right.

Rewards and Incentives

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 second annual issue of loan funded shares to 72 employees under the Group's equity reward loan funded share plan. We also issued up to $1,000 worth of shares to 78 employees under the Group's employee loyalty (tax-exempt) plan.

We have recently announced what we believe is an exciting development that will assist in securing our most talented team members and align incentives between employees and the Group – a direct equity plan. The direct equity plan will allow key team members and Directors to acquire from Countplus an equity interest directly in the subsidiary business they work in (Countplus currently fully owns 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 of leaders in each practice.

Key employees will also continue to be rewarded with equity in Countplus via the employee loyalty plan and loan funded share plan.

Capital returned from the direct equity plan will be applied to fund further acquisitions and investments without requiring the Group to substantially increase debt levels or issue new capital.

We expect that this plan will drive stronger performance by our Member Firms as a result of the direct alignment for participating employees between firm performance and return on their investment, whilst allowing the Group (and Member Firms) to continue to take advantage of investment and acquisition opportunities that arise.

This plan provides an important component to our model, enhancing the attraction for employees of staying with or joining a Countplus Member Firm. As mentioned by the Chairman, we expect the first transactions to occur under the plan later this financial year.

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. The ability also to accumulate a shareholding in the business over time, not just when the older partners retire. 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.

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.

Technology

The impact of the rapid advancement of technology in accounting services continues. Relatively new players, such as Xero in the small business accounting space and Class Super, noted earlier, in SMSF administration, 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 who offer higher value services. Many of our accounting based firms have been early adopters of these systems and are therefore well positioned for the future: in attracting talented people who want to work with the latest technology, and in attracting clients requiring higher value services and to acquire other businesses unwilling or unable to adapt to the latest technology.

Future Opportunities

Next month will mark our 4th full year as a listed company. Our model is to allow our individual Member Firms to retain responsibility for the development and implementation of the strategic direction of their businesses. We have more recently taken steps to be more actively involved with those Member Firms who have found it more difficult to generate consistent growth. This will usually take the form of the facilitation of some external consultative assistance from inside or outside the Group. Our high performing Member Firms also volunteer their services to assist others in the Group. The sharing of ideas and experiences is a key benefit of being part of Countplus.

Further consolidation of some activities such as certain human resource activities, recruitment assistance and acquisition due diligence will continue to be rolled out this year. Extensive centralisation of technology and other systems and processes however, are not being considered. Our view is that each firm's management should retain responsibility for determining what will work best within their business.

This year, the Group will benefit from realised synergies from the merger completed by associate firm, Hood Sweeney and a full year's contribution from new advisers who have joined Total Financial Solutions. Further acquisitions and investments that will be accretive to Group operating performance are also expected to be completed during the year.

What lies ahead

While conditions have been challenging for SMEs, which represent the core client base of our accounting based firms, the close relationship between accountants and their SME clients remains resilient and envied by other professions. As the SME sector improves, our Member Firms will be beneficiaries as their client's trusted adviser. In addition, the growth in self-managed superannuation fund (SMSF) sector provides further opportunities. According to ATO statistics, assets in the sector now exceed $557 billion (June 2014 quarter) of which $157 billion 28% sits in cash, signalling significant opportunities for tailored financial advice. Our accounting based firms look after in excess of 3,000 SMSFs and many Member Firms now have specialist SMSF divisions. Acquisition opportunities (particularly in the accounting space) are expected to continue to present themselves, driven by our Group's unique advantages as part of a listed company, as well as the realities of the industry's demographics.

I would like to acknowledge the teams at all our Member Firms across the country for providing outstanding service to their clients. This being my last presentation as Managing Director of Countplus, I would like to thank the Principals of our Member Firms, my small but very hard working head office team as well as the Chairman and Board of Directors for their support over the last 4 years. To all our shareholders, thank you for being investors in Countplus.

Michael Spurr
Chief Executive Officer/Managing Director
Countplus Limited