

Countplus Limited FY2015 Half Year Results

- ✓ **Net Profit before Tax: \$8.73m (up 20.4% ex loyalty payments in prior period)**
- ✓ **Net Profit after Tax: \$6.08m (down 10.3%)**
- ✓ **3rd quarterly 2 cents dividend declared**

The Directors of Countplus Limited (CUP) report a half year Consolidated Net Profit before Tax result of \$8.73 million (down 9.1%) and a Net Profit after Tax result of \$6.08 million (down 10.3%). This was primarily due to non-recurring financial planning loyalty payments (\$1.6m after tax) paid in the prior year by Count Financial to group Member Firms who are Count franchisees. Excluding these payments, Consolidated Net Profit before Tax of \$8.73 million was up 20.4% and Consolidated Net Profit after Tax was up 18.5%.

On the 24th February, the Company declared its third quarterly dividend for 2014/15 of 2 cents per share, fully franked, payable on 15 May 2015.

The group continues to benefit from 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 20 businesses and their subsidiaries across Australia; 17 accounting/business advisory firms, one financial planning specialist, a property broking group and a financial planning dealer group. The Company listed on the ASX on 22 December 2010.

A recorded presentation of the Countplus December 2014 half-year results, presented by the Chairman and CEO, will be accessible via [Board Room Radio](#) later today.

1. Management Comment and Full Year Guidance

The Company's results reflect continued challenging conditions in the accounting/business services area. Non-accounting businesses however, performed strongly.

Financial planning is continuing to see improvement across the Member Firms with raised confidence levels amongst retail investors. The group's largest firm, Total Financial Solutions has also benefitted from the impact of new firms joining their network over the last 12 months.

Our independent property broking group, Pacific East Coast (acquired in February 2012) was one of the group's strongest performers assisted from the continued strength in the residential property market along the eastern seaboard.

There was a strong contribution from our largest equity accounted associated business, South Australian based firm Hood Sweeney, in which the Company now holds a 26% share following its successful merger with another Adelaide based professional services firm, Shearer + Elliss, 12 months ago.

The good first half performance is expected to be maintained for the full year. However, prior year results from our accounting business have been inconsistent in the second half so we are not in a position to give a definitive guidance. The performance of our equity accounted associates is expected to remain strong over the 12 months. The quarterly dividend of 2c (fully franked) is expected to be maintained.

2. Financial Highlights

			% Change	% Change ex CBA loyalty payments*
1.	Total Net Revenue	\$46.87 million	Down 10.0 %	Down 5.7%***
2.	Consolidated Operating Profit (EBITA)**	\$10.19 million	Down 9.3 %	Up 14.8%
3	Consolidated Net Profit before Tax	\$8.73 million	Down 9.1%	Up 20.4%
4	Consolidated Net Profit after Tax	\$6.08 million	Down 10.3%	Up 18.5%
5.	Profit Attributable to Owners	\$6.05 million	Down 10.1%	
6.	Basic Earnings per Share	5.50 cents	Down 10.4%	
7.	Diluted Earnings per Share	5.50 cents	Down 10.4%	
8.	Third Quarterly 2 cents Dividend declared payable 15 May 2015	ex-date: 27 April 2015	record date: 29 April 2015	

* % Change ex-CBA loyalty payments column is calculated after adjusting the prior year numbers to exclude the contribution from the non-recurring financial planning loyalty payments of \$2.4 million before tax.

** Consolidated operating profit is calculated as consolidated earnings before interest, tax, amortisation, share based payments and non-cash fair value adjustments.

*** The change in total net revenue was impacted by a subsidiary that was deconsolidated and sold at the end of the prior period. Excluding this former subsidiary, total net revenue was up 4.6% (excluding CBA loyalty payments from the prior period).

3. New Initiative



A new business has been established, Blue789 Pty Ltd, to invest in market leading accounting businesses. We promoted this strategy previously (project name C2) which 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.

We have previously announced the appointment of Barry McGee to lead Blue789. Barry is a quality senior executive with extensive experience at both corporate and practice principal level with his most recent position as NSW regional chief executive at Crowe Horwath.

Blue789 is consistent with the previously announced 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.

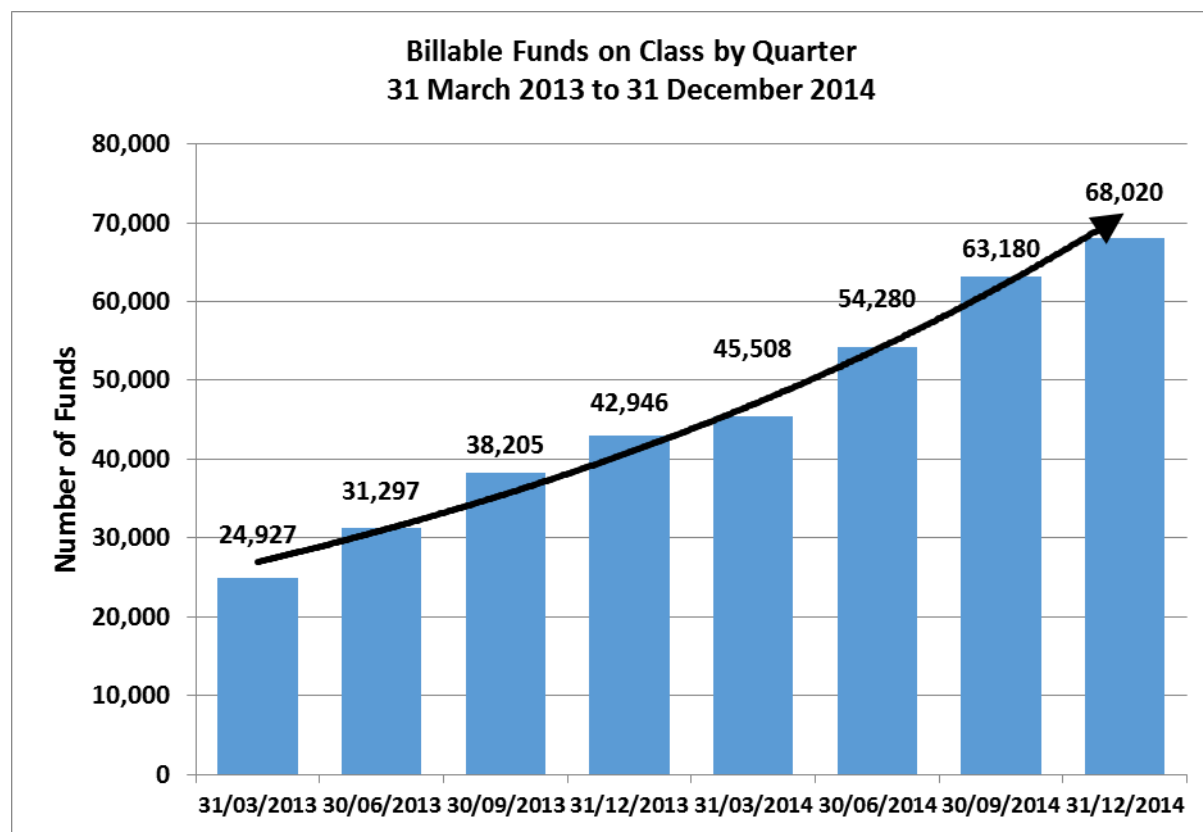
4. Acquisitions and Investments

4.1 Acquisitions made so far during the 2015 Financial Year

Since 30 June 2014, the following acquisitions and investments have also been confirmed and/or completed:

- In July 2014, Countplus subsidiary TFS Operations Pty Limited acquired a 40% share in Victorian based firm, Financial Momentum Vic Pty Ltd. Consideration for the purchase is the sum of a completion payment of \$0.84m, plus potential additional payment based on future financial performance in accordance with the share sale and purchase agreement.
- In September 2014, Countplus subsidiary Beames & Associates Accounting and Financial Services Pty Ltd acquired the business assets of a Canberra accounting firm, JDAA Accounting Pty Ltd. The purchase consideration of \$1.06m was settled in full at completion.
- Commencing in September 2014, Countplus subsidiary, Countplus FS Holdings Pty Limited progressively made an investment of 3 million shares in Crowe Horwath at an average price of 38 cents per share (\$1.14 million). The market value of the shares at 31 December 2014 was 50 cents per share. The shares were compulsorily acquired under a scheme of arrangement on 6 January 2015 (see section 7).
- In October 2014, Countplus subsidiary TFS Operations Pty Limited acquired a 49% share in Victorian based firm, McQueen Financial Group. Consideration for the purchase is the sum of completion payment of \$1.96m, plus potential additional payment based on future financial performance in accordance with the share sale and purchase agreement.
- In October 2014, Countplus acquired a further 698,243 shares of in the holding company of South Australian associate, Hood Sweeney for \$0.67m from a retiring principal. As a result of this, Countplus' interest in Hood Sweeney has increased from 23% to 26%.
- Melbourne based subsidiary, Kidmans Partners have last month completed the acquisition of Harmon Partners, a 2 partner accounting and audit firm in East Melbourne. The purchase consideration is expected to be \$1.82m, settled in 4 instalments. Harmon Partners are relocating their offices to expanded premises at Kidmans Partners' head office in Balwyn, East Melbourne. This acquisition significantly expands the audit client base and capability for Kidmans as well as providing more opportunities for its financial planning division.

4.2 Other Investments – Class Super



As at the balance date, the Company has a 3.85% interest (investment cost of \$2.37m) in Super-IP, the holding company of Class Super, a self-managed superannuation platform. Class continues to enjoy significant growth in billable SMSFs on its platform (see table above), is profitable and has commenced paying dividends. The directors of Super-IP intend to take the business to an IPO by late 2015.

This week, Countplus are acquiring more shares from an existing shareholder at a cost of \$0.67m (settling early next month), which will take its total interest to 4.84% and become the largest institutional shareholder.

4.3 Future Investments and Direct Equity Plan

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 such as through Blue789 (see section 3); and
- "Tuck-ins" or full acquisitions by existing Member Firms at the subsidiary level.

The Company 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 transactions under the plan are expected to be executed around the end of the financial year. The proceeds of sale will be used to reduce debt, fund further tuck-ins and launch the new shared equity model, Blue789 (see section 3). 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 next three 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 2014. In the prior period (as noted above), group members who are franchisees of Count Financial, a subsidiary of the Commonwealth Bank of Australia, received \$2.4m in loyalty payments from Count Financial. Also, in December 2013, the Company sold a subsidiary group, LBM. While this group did not materially contribute to operating profits in the prior period, LBM were fully consolidated in group performance for most of the prior period. In order to show a like for like comparison, the normalised change column below excludes the loyalty payments and the contribution of the deconsolidated business from the prior year.

	HY 2015		
	Dec-14	% Change	% Normalised Change*
Accounting related revenue	31,596	-9.8%	0.9%
Financial planning revenue (net)	9,737	-21.6%	8.0%
Property related income (net)	3,000	46.5%	46.5%
Other operating revenue	2,534	-0.8%	4.2%
Total net revenue	46,867	-10.0%	4.6%
Salaries & employment expense	-28,162	-8.2%	5.1%
Premises expense	-2,470	-19.3%	-2.3%
Acquisition related expenses	-83	-58.1%	-58.1%
Depreciation expense	-563	-1.4%	14.9%
Other operating expenses	-5,886	-9.8%	0.1%
Total operating expenses	-37,164	-9.4%	3.5%
EBITA before profit from associates	9,703	-12.1%	9.0%
Share of profits from associates	490	152.6%	152.6%
Operating profit (EBITA)	10,193	-9.3%	12.0%
Non-operating Income	222	82.0%	88.1%
Share based payments	-99	106.3%	106.3%
Interest expense (net)	-564	-10.0%	-6.2%
Amortisation expenses	-1,361	-15.9%	-12.2%
Profit before tax (excl fair value adj)	8,391	-7.4%	19.6%
Non-cash fair value adjustments	343		
Profit before tax	8,734	-9.1%	24.4%
Income tax	-2,653	-6.2%	
Consolidated net profit after tax	6,081	-10.3%	23.8%
Other comprehensive income (net)	0		
Total comprehensive income net of tax	6,081	-10.3%	

*The normalised change percentage column has been calculated to reflect the operating performance of the group's current Member Firms. It is calculated after adjusting the prior year numbers to exclude the contribution from a subsidiary deconsolidated at the end of the prior period and subsequently sold, LBM Group and financial planning loyalty payments paid by Count Financial. LBM Group contributed a net loss before tax of \$0.23 million in the prior period. The non-recurring financial planning loyalty payments were \$2.4 million before tax in the prior period.

5.2 Balance Sheet

	Dec 14	Jun 14	% Change
	\$ 000	\$ 000	%
Current Assets	32,186	34,334	(6.3%)
Current Liabilities	41,751	21,013	98.7%*
Current Ratio	0.77*	1.63	
Non-Current Assets	71,133	65,427	8.7%
Non-Current Liabilities	7,857	27,584	(71.5%)*
Net Assets	53,711	51,164	5.0%
Net Debt	16,682	12,692	

*The current liability includes the group's loan facility with the Commonwealth Bank of \$24.3m which is a 3 year facility due to expire in October 2015. As required under Australian Accounting Standards, this has been reclassified from a non-current to current liability, however the Directors are confident of having an extended facility well in advance of expiry.

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.

Accounting related revenue, after adjusting for the contribution of the subsidiary divested during FY14 and with their figures reflected in the corresponding year result, was flat for the period (up 0.9%).

Net financial planning revenue after excluding the prior period impact of the subsidiary sale and CBA loyalty payments (\$2.4 million before tax), was up 8% over the period, and makes up 20.7% of total net group revenue. 16 Member Firms are franchisees of Count Financial for the provision of financial planning services.

Property and related services revenues now contribute 6.4% (2014: 4.6%) of total net revenue due to the strong performance of our property services group, Pacific East Coast, reflecting continued strength in the residential property market.

5.4 Expenses

Total operating expenses (normalised for the sale of the subsidiary) increased by 3.5% over the prior period. Employment related expenses increased by 5.1%. Premises related expenses reduced by 2.3% following the renegotiation of some Member Firm leases and relocations.

5.5 Net Income (Contribution Margin)

Net income from Member Firms (EBITA before share of profits from associates) was \$9.7m for the period. This equates to a margin of 20.6% of Total Net Revenue up from 19.8% in the prior period (excluding the impact of the prior period loyalty payments and the subsidiary sold).

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 26% interest in South Australian professional services firm, Hood Sweeney. The initial investment in Hood Sweeney was acquired in October 2012. During the period, the group's financial planning dealer group, Total Financial Solutions acquired interests in 2 Victorian financial planning businesses, Financial Momentum (40%) and McQueen Wealth Management (49%).

5.7 Amortisation Expenses

Amortisation expenses of \$1.36m (down 15.9%) 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.

6. Capital Management

6.1 Net Debt

Net debt as at 31 December 2014 was \$16.7 million. The increased debt since 1 July 2014 was brought about by the abovementioned acquisitions/investments and also the payments of deferred consideration from previous acquisitions.

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

6.2 Dividends

The third quarterly dividend of 2 cents per share, fully franked, payable on 15 May 2015 was declared on 24 February 2015.

Dividends Paid 2014/15	Cents per share	Paid
1 st Interim Dividend	2 cents	17/11/2014
2 nd Interim Dividend	2 cents	16/02/2015

Dividend Declared 2014/15	Cents per share	Payable
3 rd Interim Dividend	2 cents	15/5/2015

The final dividend for 2014/15 will be confirmed prior to the end of the financial year and is expected to be paid on 14 August 2015.

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. 160 employees have now received loan funded shares under the plan over the last 2 years.

- **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 6 January 2015, the investment in the Crowe Horwath shares by Countplus subsidiary, Countplus FS Holdings Pty Limited was acquired by Findex Australia Pty Ltd, for a price of 44.3c per share totalling \$1.33m. Before the acquisition by Findex Australia Pty Ltd, Crowe Horwath also declared a special dividend of 5.7c per share totalling \$0.17m. This dividend is included as income in the half-yearly report.

As noted in section 4.1, in January 2015, Countplus subsidiary Kidmans Partners Pty Ltd entered into a sale and purchase agreement to acquire the accounting business and accounting assets of Melbourne based firm, Harmon Partners. The purchase consideration is expected to be \$1.82m, settled in 4 instalments.

As noted in section 4.2, the Company received an allocation of 264,385 shares in Super-IP (the holding company of Class Super) under a share sale offer. The transaction is expected to settle in early March 2015. This will increase the Company's investment in Super-IP to 4.84%.

On 24 February 2015, Countplus declared its third quarterly, fully franked, dividend for 2014/15 of 2 cents per share, payable on 15 May 2015 (record date: 29 April 2015).

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

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