

ASX ANNOUNCEMENT - KPG

Tuesday, 13th June 2023

Quality Shareholders #13: How we think about Earnings

Dear Quality Shareholders,

In our history we have never managed earnings to do anything other than build a 100 year plus 'Built to Last' business.

Pre IPO, we didn't try and maximise our IPO valuation by stripping out costs to elevate profit.

In each year since the IPO, we have made the investments that will generate the best long-term return for all shareholders. Occasionally, we have and will make additional investments exceeding the 9% fee that we receive from our operating businesses. In these years, our earnings will be impacted by this. The table below illustrates the extent to which our earnings could fluctuate depending on the quantum of additional investments we make.

		W/O	With Additional Investment				
		Additional Investment	0.0%	-1.0%	-2.0%	-3.0%	-4.0%
Additional investment as % of Revenue		0.0%	-1.0%	-2.0%	-3.0%	-4.0%	-5.0%
Revenue		\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
EBITDA	33.0%	\$0.33	\$0.33	\$0.33	\$0.33	\$0.33	\$0.33
Depreciation	-2.5%	-\$0.03	-\$0.03	-\$0.03	-\$0.03	-\$0.03	-\$0.03
Interest	-1.5%	-\$0.02	-\$0.02	-\$0.02	-\$0.02	-\$0.02	-\$0.02
Group NPBT	29.0%	\$0.29	\$0.29	\$0.29	\$0.29	\$0.29	\$0.29
KPGH Share	51.0%	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15
Additional Investment		\$0.00	-\$0.01	-\$0.02	-\$0.03	-\$0.04	-\$0.05
KPGH NPBT		\$0.15	\$0.14	\$0.13	\$0.12	\$0.11	\$0.10
Tax	-30.0%	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.03	-\$0.03
KPGH NPATA		\$0.10	\$0.10	\$0.09	\$0.08	\$0.08	\$0.07
% of Revenue		10.4%	9.7%	9.0%	8.3%	7.6%	6.9%

Our stated aim has been to double the size of the business every 5 years. In 2019, we published our 5-year plan to double the business from \$40m revenue to \$80m, and from \$4m NPATA to \$8m NPATA, by FY2024.

We believed then that this goal was conservative – the maintainable NPATA at the time should have been approximately \$5m, the actual \$4m having been impacted by the additional investments made (as shown in the below table), as well as an accounting adjustment arising from the Sydney CBD acquisition. Therefore a true doubling in the business would be to increase revenues to \$100m and Underlying NPATA to \$10m. We believe we are on track to achieve this in FY 2024.

'm	FY18	FY19	FY20 Actuals	FY21	FY22
Revenue	\$39.5	\$40.0	\$45.5	\$48.9	\$64.9
NPATA	\$4.8	\$2.8	\$4.4	\$5.2	\$5.6
Underlying NPATA	\$4.3	\$3.2	\$3.9	\$5.1	\$6.3
% of Revenue	11.0%	8.0%	8.7%	10.5%	9.7%
Add back: Additional investments	\$0.4	\$0.7	\$1.6	\$0.4	\$0.1
Less: Tax effect	-\$0.1	-\$0.2	-\$0.5	-\$0.1	\$0.0
Underlying NPATA pre additional investments	\$4.6	\$3.7	\$5.1	\$5.4	\$6.4
% of Revenue	11.6%	9.3%	11.2%	11.0%	9.8%

Please do be in touch should you have any questions.

Yours sincerely,



Brett Kelly
Founder & CEO

About Kelly+Partners Group Holdings Ltd (ASX:KPG)

Kelly+Partners is a specialist chartered accounting network established in 2006 to provide a better service to private clients, private businesses & their owners, and families.

Growing from two greenfield offices in North Sydney and the Central Coast, Kelly+Partners now consists of 36 operating businesses across 31 locations in Australia, Hong Kong and the United States. In total, the team consists of more than 400 people, including 79 partners, who service over 17,000 SME clients.

The holding company, Kelly Partners Group Holdings Limited, was successfully listed on ASX on 21 June 2017.

Over the past 17 years, Kelly+Partners has undertaken 70 individual transactions in order to build the current accounting network. This includes the transformation of 40+ external firms, and the launch of 20+ greenfield businesses.

KPG's ownership structure and unique operating model (**Partner-Owner-Driver™**) is transforming the Australian accounting market, and provides a strong platform for long-term sustainable growth. The combination of a proven business model and specialist operational expertise enables KPG to help solve many of the issues currently facing both the accounting sector and the SME clients of our firms.



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