

ASX ANNOUNCEMENT - KPG

Thursday, 24th November 2022

Quality Shareholder #12 Investing for Long Term Global Growth

Dear Valued Shareholder,

This quality shareholders email will cover the following topics:

1. Introduction and Background
2. Consistent results from application of business system
3. 5 Years since IPO Plan on Track
4. 2022 AFR Top 100 Accounting Firms in Australia
5. Long term value creation
6. Global Expansion
7. Additional Investments in FY23

1. Introduction and Background

Kelly+Partners wants to be the first-choice accountant for private business globally. This is our 25-year Big Hairy Audacious Goals (BHAG) and it is important to share this long term goal upfront.

We believe that to maximize the positive business impact we need to win in brand, digital and talent and do so at a global scale.

In managing the Company, we have 5 options with respect to capital allocation as follows

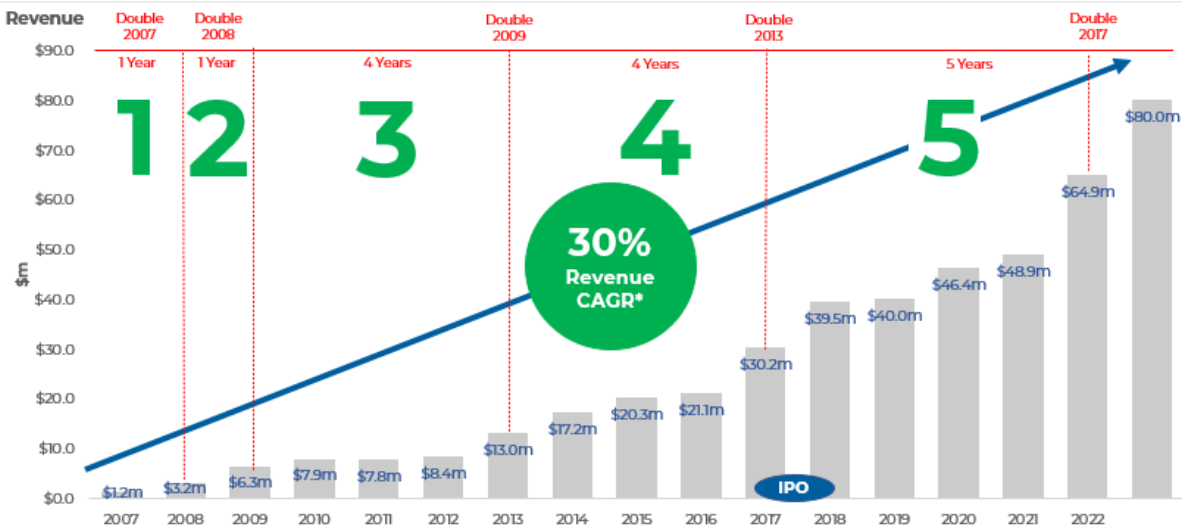
1. Investing in existing operations
2. Acquiring other businesses
3. Issuing dividends
4. Paying down debt
5. Repurchasing stock

To date our capital allocation decisions have been as follows:

KPG aims to build per-share intrinsic value by:			FY18	FY19	FY20	FY21	FY22
1	Improving the earning power of our operating businesses	✓	34.0%	27.7%	32.5%	33.4%	30.9%*
			<i>EBITDA margin of operating businesses</i>				
2	Further increasing their earnings through acquisitions	✓	17.2%	6.4%	6.6%	4.8%	26.5%
			<i>Contribution to revenue growth</i>				
3a	Growing our existing accounting subsidiaries	✓	10.3%	(6.4%)	6.6%	1.5%	4.7%
			<i>Contribution to revenue growth</i>				
3b	Growing our existing complementary businesses	✓	2.7%	1.8%	1.4%	1.2%	1.5%
			<i>Contribution to revenue growth</i>				
4a	Making programmatic acquisitions	✓	0	4	3	7	8
			<i>Number of acquisitions</i>				
4b	Making an occasional large acquisition (i.e. >\$5m in revenue)	⊖	0	0	0	0	0
5	Repurchasing KPG shares	✓	0	2k	95k	400k	0
	Number of Shares On Issue	✓	45.5m	45.5m	45.4m	45.0m	45.0m

2. Consistent results from application of business system

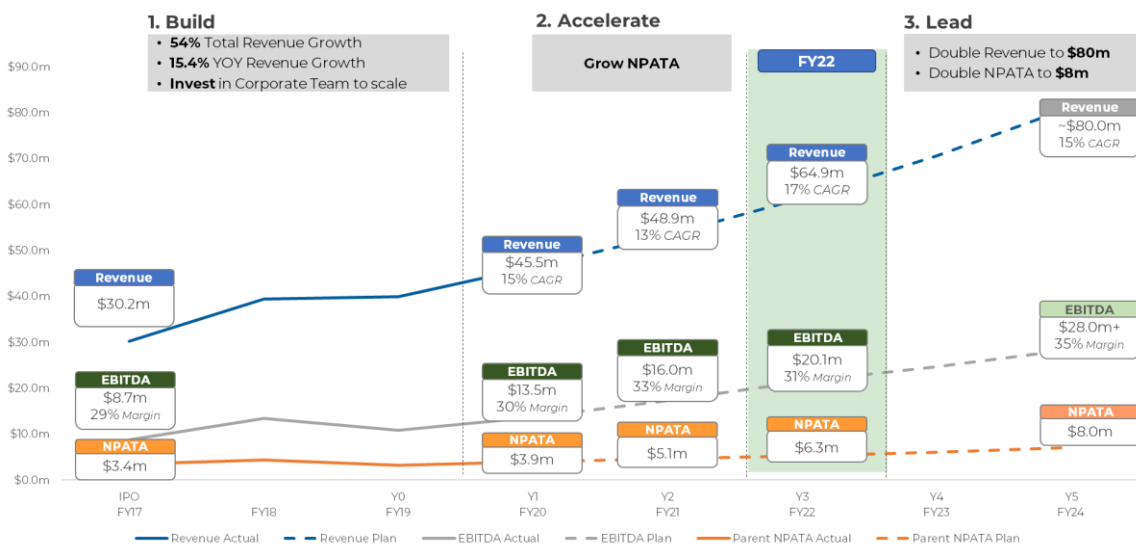
The development of the business since it commenced in 2006 looked like this as we have published previously.



Run rate

3. 5 Years since IPO Plan on Track

Having reached a revenue run rate of more than \$80m per annum (as per our 5-year goal) and now seeing \$100m revenue in sight we want to share how we see the 5- and 10-year future from here. This will allow you as a fellow shareholder to appreciate the north star guiding our development of the Group and track our progress albeit knowing that nothing in life or business moves forward in a perfectly straight line.



Since IPO we have reduced shares outstanding by 1.1% and have not raised any additional capital. We hope as a shareholder you appreciate how we can grow the business without raising capital or issuing shares in the Company.

4. 2022 AFR Top 100 Accounting Firms in Australia

Rank	Firm	Revenue FY22 (\$m)	Revenue growth (% YoY)
1	PwC	2,840	17
2	Deloitte	2,500	19
3	EY	2,390	18
4	KPMG	2,179	15
5	BDO	403	16
6	Findex	389	4
7	Grant Thornton	285	7
8	RSM Australia	281	16
9	Pitcher Partners	279	6
10	PKF	141	12
11	William Buck	135	11
12	Bentleys Network	127	0
13	Nexia Australia	121	8
14	Synergy Group	120	41
15	HLB Mann Judd	112	3
16	Walker Wayland Australasia	99	-6
17	McGrathNicol	99	12
18	Hall Chadwick	83	4
19	CountPlus	83	5
20	Moore Australia	82	0
21	Kelly + Partners	65	33

Last week the Australian Financial Review published its list of Top 100 accounting firms. Kelly+Partners currently ranks 21st by size and has less than 5% of its total revenue from audit services which are generally considered to be less profitable and more likely to be impacted by technology over time.

Our shareholders should also note that we continue to dramatically outgrow the industry on a consistent basis.

5. Long term value creation

As we have communicated in past Quality Shareholders emails, our decision and activities have always been conducted to create long term value for our shareholders, which may at times impact short term financial outcomes. We believe it is important to communicate such initiatives to you, being part owners of the business, so that you are well informed of the Group's strategy and intentions for the long term.

Putting our decisions into context, we have grown our Group significantly since the IPO in the following respects:

- Group revenue is on track to exceed \$80m this financial year, doubling the business from \$40m in 2019 as per our five-year plan
- In the last financial year, we completed a record number of acquisitions (8 acquisitions). This year to date, we have completed 4 acquisitions with another 1 due to complete in early December.
- Our team members have grown to 400+
- Our equity partners have grown to 70+
- We now have 34 operating businesses in 27 locations across three states (NSW, QLD, VIC) in Australia, as well as Hong Kong. Opening Queensland confirms our east coast focus of Australia.

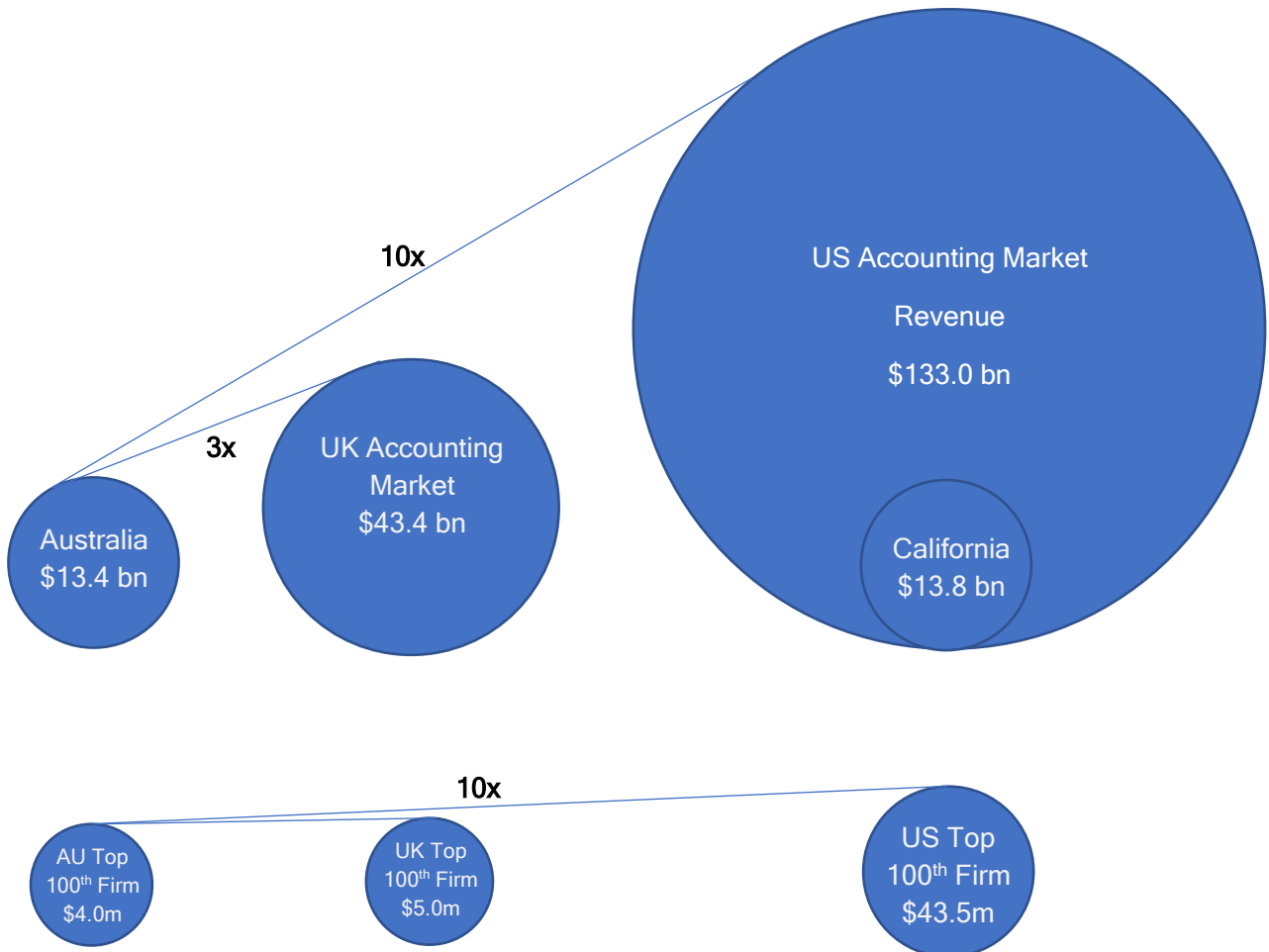


6. Global Expansion

"First, you fire bullets (low-cost, low-risk, low-distraction experiments) to figure out what will work—calibrating your line of sight by taking small shots. Then, once you have empirical validation, you fire a cannonball (concentrating resources into a big bet) on the calibrated line of sight." – Jim Collins

As we have communicated at our full year results presentation, we believe that the Group's long term strategy is to expand its presence in to other English speaking markets, namely United States and the United Kingdom, in the immediate term. There are several reasons to this:

- We expect that the Group will grow to become the Top 10 Accounting Firm in Australia within the next 3 years and become the largest firm focused solely on Private Business Owners in Australia (other top 20 accounting firms will generate significant parts of their revenue from audit which is a service we don't want to have as a focus)
- The wider US market is 10x the Australian accounting market, as represented in the graphics below (figures in USD):



Expansion into US

- Through initial visits to California, United States, we have developed a strong view that there is significant opportunity in this market, for the following reasons:
 - The population in California is double the size of Australia (40m¹ v 26m²)
 - The Californian economy, if it was a country by itself, ranks 4th in the world³
 - There are 12,931⁴ accounting firms in California (most number of accounting firms in the US) with a TAM of \$13.8bn⁵, larger than the whole Australian TAM
 - The 100th largest accounting firm in the US has revenues of AUD \$66m⁶, compared to AUD \$6m⁷ in Australia
 - There are 60,000⁸ Australians in California
 - Our meetings with brokers and CPA firm owners in California have revealed that CPA firms owners encounter the same issues as the accounting firms in Australia, namely resolving succession issues, recruiting talent, embracing technology etc.
 - The average EBITDA of a CPA firm in US is 18.2%⁹, compared to 19% in Australia
 - The market purchase price of CPA firms is akin to the price paid in Australia
 - There is a huge untapped market in the sub <\$20m revenue CPA firms where there is no player acquiring these firms

Since identifying this opportunity, our present goal is to prove the playbook “first bullets, then cannonballs” – i.e., that we are able to acquire a CPA firm in the US and improve its operations and profitability significantly, as we have done in Australian accounting firms.

We are pleased to advise that we are in the process of establishing the following for the Group's expansion into the US:

- Establishment of a Delaware holding co Kelly Partners Group Holdings (USA) Inc.
- Establishment of a Californian professional accountancy corporation Kelly Partners (Malibu) LLC
- Operationalizing the above entities including establishing insurance coverages, bank accounts etc
- Licensing Brett as an AICPA (American Institute of Certified Practicing Accountants)
- “Americanizing” of our standard legal agreements used in acquisitions in Australia
- Leasing of an office space in California
- Engagement of 2 leading accounting firm brokers and recruiters
- We have made a letter of offer to two CPA firms to date

¹ https://datacommons.org/place/geold/06?utm_medium=explore&mprop=count&popt=Person&hl=en#

² https://datacommons.org/place/country/AUS?utm_medium=explore&mprop=count&popt=Person&hl=en#

³ <https://www.latimes.com/california/story/2022-11-02/what-does-it-mean-if-california-becomes-worlds-4th-largest-economy>

⁴ IBISWorld Accounting Services in the US, September 2022, page 21

⁵ IBISWorld Accounting Services in the US, September 2022, page 21

⁶ <https://www.accountingtoday.com/the-2021-top-100-firms-data>

⁷ <https://www.afr.com/companies/professional-services/revenue-at-100-biggest-accounting-firms-jumps-14-5pc-20221102-p5bv2d>

⁸ <https://www.sbs.com.au/news/article/australians-in-los-angeles-say-the-coronavirus-lockdown-has-inspired-them-to-innovate/iz9mtwtki>

⁹ IBISWorld Accounting Services in the US, September 2022, page 25

We expect if we can prove the model, we will be able to achieve what we have done in Australia, at potentially a shorter timeframe given our experience.

Expansion into the UK

Currently we are establishing the structure in the UK and reviewing the strategy into the UK for the future. It is not an immediate priority unless a suitable partner in that market becomes available. We are pleased to advise that we have established the following for the Group's expansion into the UK:

- Establishment of a UK holding co Kelly Partners Group Holdings (UK) Inc.
- Licensing Brett with the ICAEW (Institute of Chartered Accountants England and Wales)

Our initial investigation into this market is that it shares very similar characteristics in Australia, and we will continue to research the appropriate ways to execute the Kelly+Partners model in this market to ensure that we build out a global first choice accounting firm for private business owners.

We note that London and Los Angeles are 2 of the top 3 destinations for Australian expatriates.

7. Additional Investments in FY23

Given the rapid growth of our businesses, we believe it is critical to make additional investments so that the Group remains highly competitive in our industry and to support the Group's accelerated expansion. As such we have committed to the following additional investments in the current financial year:

- **Strategy**
 - Establishing our presence in other markets such as the US and the UK
 - Growing the total addressable market of the business with a programmatic acquisition mentality and playbook (average deal size expected to be \$5m over numerous deals over the next 25 years)
- **People**
 - Scaling up of the senior executive team and central progress team to handle the accelerating pace of acquisitions and to service the growing number of operating businesses in the Group
 - Development of global talent centres in appropriate locations
- **Digital**
 - Digitisation of the business' offering to its clients to remain innovative and to attract both clients and accounting practices to join the group
 - Digitisation and automation of our acquisition engagement and integration processes to enable the business to truly accelerate its acquisition rhythm and to become a true "programmatic / serial acquirer"
- **Risk & Legal**
 - Registration of all Kelly+Partners intellectual property including brand, proprietary systems, processes and business models, in Australia and globally
 - Working on structure for growth here and in other global markets
- **Brand**
 - Development of a differentiated offering to our clients in the form of unique events and experiences with world renowned individuals
 - Ensure that the business remains competitive with a strong brand to attract the talent required to continually grow the Group, including increasing the awareness of the brand in non-AU markets where we are looking to expand

We expect the above additional investments will impact short term results. As per previous communications we do not provide guidance on our results, so we are unable to provide our estimate forecasts of the full year headline numbers. We do believe that the underlying profits to shareholders for the current financial year will deviate from the "normal" profitability metrics of the business. When we present our results at reporting end, we will ensure these additional investments are clearly presented and communicated where possible.

Not making the above additional investments will certainly improve short term profitability, but will weaken the long term growth prospects and competitive moats of the Group. These are deliberate choices made to enable the business to grow to become a global business in the long term.

Thank you

While the global economy outlook is bleak, we believe our businesses will be impacted minimally and are well structured to grow. We thank you for your continuous support and we will be in touch shortly again with further updates on the Company's strategy.

Yours sincerely,

A handwritten signature in blue ink that reads "Brett Kelly". The signature is written in a cursive style with a horizontal line underneath the name.

Brett Kelly
Founder & CEO

Kelly+Partners – Current Office Locations - NSW



Kelly+Partners – Current Office Locations – VIC



Kelly+Partners – Current Office Locations – QLD



Kelly+Partners – Current Office Locations – International



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 34 operating businesses across 27 locations in Australia and Hong Kong.

In total, the team consists of more than 400 people, including 73 partners, who service over 13,500 SME clients.

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

Over the past 16 years, Kelly+Partners has undertaken 60 individual transactions in order to build the current accounting network. This includes the transformation of 43 external firms, and the launch of 17 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.

For more information, please contact:

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