

## ASX ANNOUNCEMENT - KPG

Thursday, 18<sup>th</sup> April 2024

# Quality Shareholders #15: Kelly Partners Growth Partnership Platform

Dear Quality Shareholders,

### Background

While we can't ever be certain of the progress we may continue to make, it is our intention to continue to grow the group. The progress we would expect over a period of five years is that we would be in or about the top ten accounting firm in Australia, have established a material USA and UK presence and be developing a global footprint although embryonic.

The purpose of this shareholder note is very simple, to communicate:

1. There are many Australians around the world who are intelligent, driven and own terrific businesses and have a global mentality;
2. Those Australians cannot currently be serviced by an Australian global accounting firm, as one has not previously existed;
3. KPG is an ASX listed permanent capital holding company with a unique operating business model for accounting firms proven across more than 70 deals;
4. KPG believes that its mission, values, vision, expertise, capital and business model will travel well into the USA, UK and other markets;
5. KPG is targeting Founders who have built great accounting firms (\$2m to \$10m of revenue) that they care about and want a capable partner in their business but don't want a transactional sale to private equity;
6. KPG believes it can attract firms with management teams in many markets that want to Partner with KPG to build out our Partner-Owner-Driver® model in their markets;
7. KPG believes it can acquire a global network of firms and bring them closer to KPG and ultimately bring the best of those firms into KPG over the next decade to build our Australia's global accounting firm.

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## Strategy 2050

“Thinking long-term gives you an “arbitrage” advantage because almost no one else thinks long-term. If everything you do needs to work on a three-year time horizon, then you’re competing against a lot of people.”

— Jeff Bezos

Kelly+Partners seeks to build Australia’s global accounting firm for private business owners. We know it will take 25 years to fully manifest the reality.

Today as an Australian business owner when you look to grow globally there are not many Australian owned firms operating in other markets that can handle your complex needs in an integrated manner. This significant gap in the market presents a genuine opportunity for Kelly+Partners to realise our unique position in the accounting market globally.

The regions that have the largest share of the Australian diaspora are as follows:

*Table 1: Regions with significant Australian Populations<sup>1</sup>*

#	Region	Population
<b>1</b>	<b>United Kingdom</b>	<b>165,000</b>
<b>2</b>	<b>United States</b>	<b>98,969</b>
3	New Zealand	75,696
4	Canada	21,115
5	Singapore	20,000
6	Thailand	20,000
7	United Arab Emirates	16,000
8	South Korea	15,222
9	Hong Kong	14,669
10	Germany	13,600
11	China	13,286
12	Japan	12,024
13	Malaysia	4,000
<b>Total</b>		<b>489,581</b>

<sup>1</sup>Wikipedia, “Australian diaspora”

## Realising a Blue Ocean Position

*“While good strategy content is based on a compelling value proposition for buyers with a robust profit proposition for the organization, sustainable strategy execution is based largely on a motivating-people proposition.”*

— W. Chan Kim, *Blue Ocean Strategy, Expanded Edition: How to Create Uncontested Market Space and Make the Competition Irrelevant*

To create long term competitive advantage a business must build a moat which is a uniquely differentiated position in the mind of the client and in the service of the market.

Australia is one of the wealthiest per capita countries in the world with a population that is outward looking globally in its aspirations and behaviour.

Increasingly successful private businesses are staying private for longer and growing globally. This trend is strong in Australia as it is true in most developed countries of the world.

Very few people would have realised the growth in the number of billionaires in Australia over the last decade has been from 39 in 2013 to 139 in 2023<sup>2</sup>. The general growth in ultra-high net worth individuals who largely come from the business owning class increasingly require sophisticated service providers that has a global outlook and international capabilities.

Table 2: Number of High Net Worth Individuals<sup>3</sup> and Billionaires by country<sup>4</sup>

#	Region	# HNWIs	Billionaires	Per Capita Rate
1	US	525	735	1.853
2	China	384	495	0.253
3	India	203	169	0.103
4	UK	162	52	0.715
5	France	151	43	0.579
6	Japan	131	40	0.207
7	Thailand	113	28	0.300
8	Mexico	110	14	0.095
9	Indonesia	110	29	0.056
<b>10</b>	<b>Australia</b>	<b>109</b>	<b>47 (139*)</b>	<b>1.229</b>

\*Per Australian Financial Review

In order to realise our strategic objective, we aim to build a presence in Los Angeles followed by the UK which we regard as a spine from Australia through the US to the UK and expect that over the next 25 years we can add significant capability to this embryonic presence. As you can see from Table 1 above the number of Australians living and working in the cities is not insignificant and together with the native local market will significantly grow Kelly+Partners' addressable market.

<sup>2</sup> Australian Financial Review Magazine, "The 200 richest people in Australia revealed", published 25 May 2023

<sup>3</sup> Capgemini World Report Series 2023 Wealth Management – Unlock Growth in Wealth Management, page 35

<sup>4</sup> Forbes The World's Billionaires

# KP+GH

KELLY PARTNERS GROUP HOLDINGS LIMITED

Image 1: The country of origination for top accounting firms

	Firm Name	Logo	Revenue (\$b)	Founded	Years	UK	US	Japan	Germany	Holland	France	Australia
1	Deloitte		59.3	1845	178	✓	✓	✓				
2	PwC		50.3	1854	169	✓	✓					
3	EY		45.4	1849	174	✓	✓					
4	KPMG		34.6	1818	205	✓	✓		✓	✓	✓	
5	BDO		11.8	1973	50	✓			✓	✓		
6	RSM		7.3	1964	59	✓	✓				✓	
7	Grant Thornton		6.6	1980	43	✓	✓					
8	Nexia International		4.5	1971	52	✓	✓					
9	Crowe Horwath		4.3	1942	81		✓					
10	Baker Tilly		4.3	1914	109		✓					
	<b>Kelly+Partners</b>			2006	17							✓

Image 2: The largest accounting firm founded in each major economy

	Country	GDP (\$T)	Firm Name	Founded	Founded in	Logo
1	United States	23.0	Lybrand, Ross Brothers and Montgomery (now part of PricewaterhouseCoopers)	1898	Philadelphia, United States	
2	China	18.0	ShineWing	1981	Beijing, China	
3	Japan	4.9	Tohmatsu Aoki & Co (now part of Deloitte Touche Tohmatsu)	1968	Tokyo, Japan	
4	Germany	4.2	Deutsch-Amerikanische Treuhand-Gesellschaft (now part of KPMG)	1890	Berlin, Germany	
5	United Kingdom	3.2	Cooper Brothers	1954	London, England	
6	India	3.2	S S Kothari Mehta & Co	1971	New Delhi, India	
7	France	2.9	Mazars	1945	Rouen, France	
8	Italy	2.1				
9	Canada	2.0	MNP (Meyers Norris Penny)	1945	Brandon, Canada	
10	South Korea	1.8				
11	Russia	1.8				
12	Brazil	1.6				
13	<b>Australia</b>	<b>1.5</b>	<b>Kelly+Partners</b>	<b>2006</b>	<b>Sydney, Australia</b>	

## KPG Approach Explained

*“We are stubborn on vision. We are flexible on details...”*  
 — Jeff Bezos

KPG is exploring the best way to realise its strategic objectives and create long term shareholder value. Kelly+Partners is here to serve the Australian business community and provide a unique and differentiated career path for driven accountants.

We plan to deploy 3 business models to realise objectives:

**a. Partner-Owner-Driver® in AUS, LA and UK**

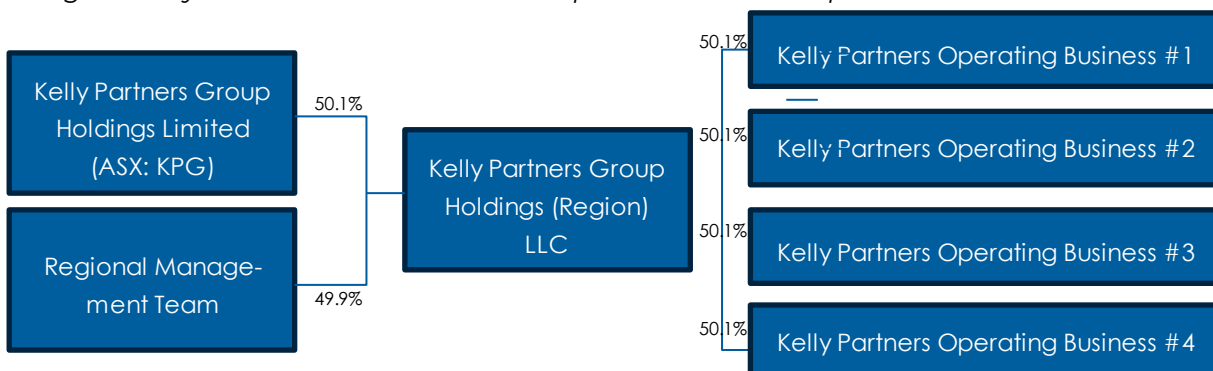
Our quality shareholders should be familiar with our Partner-Owner-Driver® model. Below is an explanation of the other two models.

**b. Kelly+Partners Growth Partnership Platform**

As Kelly Partners pursues a global expansion strategy and a realisation of the vision to become the Australia’s global accounting business, we have developed a platform to partner with management teams across geographies.

Similar to Constellation Software’s (whom we admire) operating groups, we will establish a holding company in each geography led by capable management teams. We will identify and select management teams in each geography that could become great capital allocators, as well as demonstrating a deep level of understanding and experience in the accounting industry. The management teams will own 49.9% of the holding company, which will then identify and acquire accounting businesses in their respective geographies. We believe this structure aptly provides the right incentives to the management teams and aligns them to the business, as the late Charlie Munger would say *“Show me the incentives, and I’ll show you the outcome”*. Essentially these layers will form the nucleus of a partner services team in those regions and have ownership together with us of the opportunity in that region to deploy the Kelly+Partners model on a shared equity basis.

Image 3: Kelly Partners Growth Partnership Platform – Example Structure



## c. **Kelly+Partners Global Network**

Kelly+Partners Global Network is simply a network of firms that we have identified as likely to join Kelly+Partners in the largest 12 markets where Australian business owners operate as outlined in Table 1 above. Kelly+Partners will provide an accountancy network to those organisations with a view to build a long term relationship and ultimately take an ownership position in each of those businesses.

### **Long Term Value Creation**

Although KPG has pioneered a unique HoldCo structure and at the operating business level a Partner-Owner-Driver® model for some time in the Australian market it was then and still is today relatively misunderstood in the marketplace. That said its track record has proven the model's unique ability to align and assist our partners in achieving world class outcomes.

Similarly, the two derivations of that model that we seek to execute in pursuit of our global growth strategy are not models pursued by other groups in the past. However, they are variations on a theme or proven ways to grow with an additional and heavy emphasis on genuine equity partnership as well as beneficial sharing.

As we further develop our plans, we will share with our quality shareholders progress and I'm sure numerous iterations will be necessary to perfect our plans as we move forward together.

We have always pursued the growth of the group to align with our mission, values, and vision, and these initiatives continue our strategy to build unique structure that is suitable to our group culture while delivering leading value returns. We continue to have a laser like focus on genuine partnership with deep expertise on capital allocation and we will continue to progress within the strong financial frameworks that we've pursued since the inception of the business in 2006.

### **Capital Structure**

KPG is in the advanced stages of securing a \$50 million debt facility which will be secured against its USA hold co and assets to drive the growth of the USA market.

### **Conclusion**

We share this note in the spirit of transparency as we are working intently to build the group. I would like all shareholders to be in the same position building a deep understanding of the actions that we are working towards together.

The Founder and CEO of Kelly Partners Group Holdings Limited has approved the release of this document to the market.

## Kelly+Partners – Current Locations



## 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 37 operating businesses across 34 locations in Australia, Hong Kong and the United States.

In total, the team consists of more than 500 people, including 91 partners, who service over 23,000 SME clients.

The holding company, Kelly Partners Group Holdings Limited, was 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 50+ external firms, and the launch of 20+ greenfield businesses.

KPG's Hold Co ownership structure and unique operating model (**Partner-Owner-Driver**<sup>®</sup>) 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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