

# + Kelly Partners Group Holdings Limited (KPGH)

## FY19 Results Presentation

ASX: KPG

PRESENTED BY

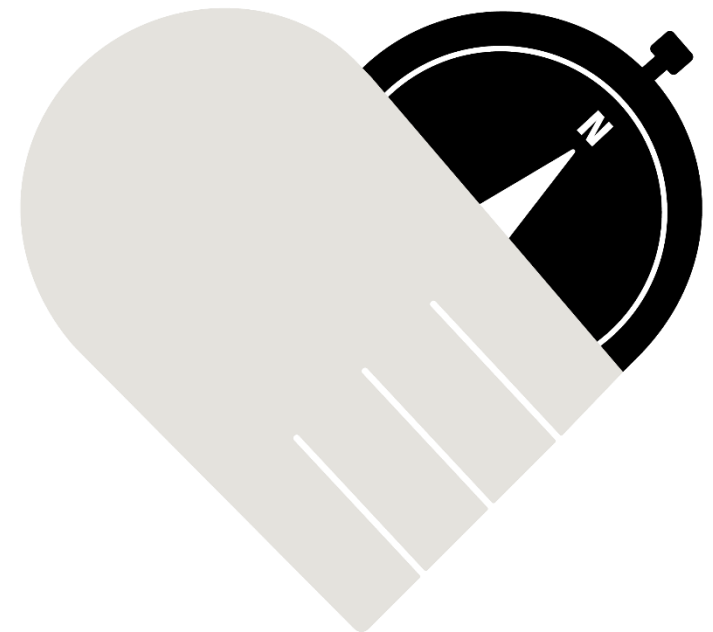
Brett Kelly, CEO and Executive Chairman

Justin Sweeting, Deputy CFO

Kenneth Ko, Group Finance Manager

20 August 2019

Kelly Partners Group Holdings Limited  
[kellypartnersgroup.com.au](http://kellypartnersgroup.com.au)



# **KPG Strategy**

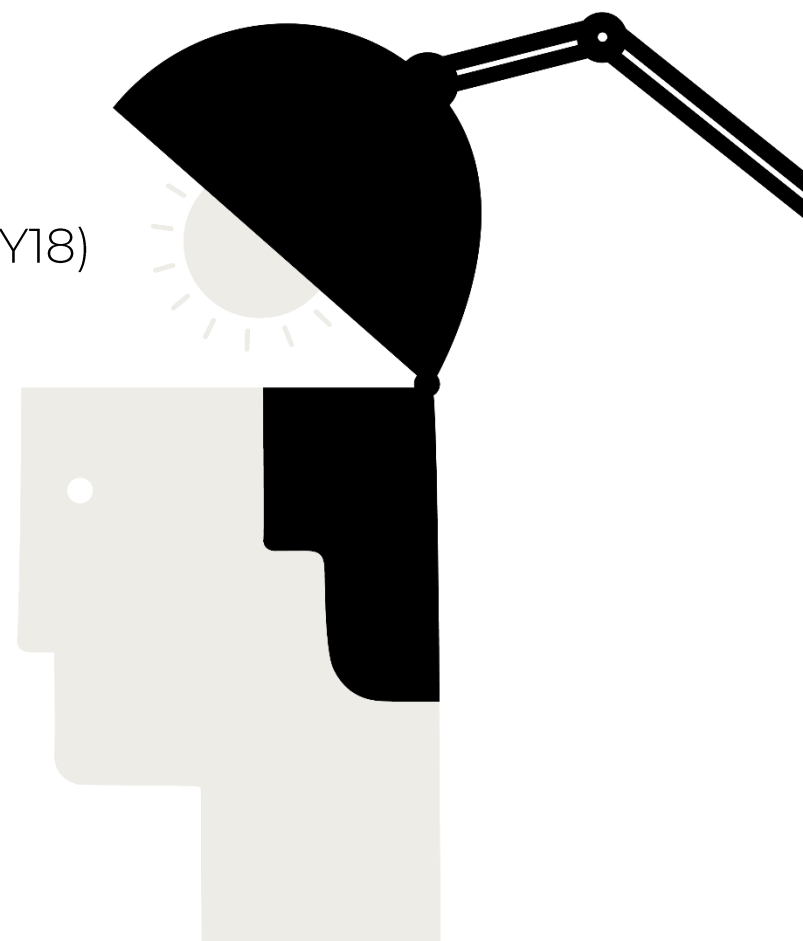
+ To build per-share intrinsic value

Kelly Partners Group Holdings Limited hope to build per-share intrinsic value by:

- Improving the earning power of our many subsidiaries;
- Further increasing their earnings through tuck-in acquisitions;
- Participating in the growth of our investees;
- Repurchasing KPG shares when they are available at a meaningful discount from intrinsic value; and
- Making an occasional large acquisition.

# +Result Highlights

- Revenue Growth (organic, ex Sydney CBD) of 7.5%
- Total Revenue growth (ex Sydney CBD) 11.9%
- ROE 32.0% and ROIC of 20.2%
- Cash from Operations of \$10.0m (up 51.0% on FY18)
- Owners' Earnings of \$9.7m (up 53.4%)
- Integration of four recently acquired accounting businesses in:
  - North Sydney,
  - Inner West,
  - Northern Beaches, and
  - Oran Park



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# + FY19 Financial Highlights

Revenues and underlying EBITDA in line with guidance

FY19 Financial Highlights	KPGHL & Controlled Entities			KPGH Attributable to Shareholders		
	FY19 \$m	FY18 \$m	Change %	FY19 \$m	FY18 \$m	Change %
Revenue from ordinary activities	\$40.0	\$39.5	1.3%			
Underlying EBITDA	\$10.9	\$13.4	-18.9%	\$5.1	\$6.4	-20.9%
Margin (%)	27.1%	33.9%				
Underlying NPATA	\$8.4	\$10.2	-17.4%	\$3.2	\$4.3	-26.2%
Margin (%)	19.7%	26.9%				
Statutory NPAT	\$7.1	\$10.0	-28.3%	\$2.4	\$4.4	-44.4%
Dividends Paid				\$2.0	\$1.4	
Earnings per share (cents)*				5.35c	9.63c	
Return on Equity	32.0%	44.0%				
Return on Invested Capital	20.2%	28.9%				
Owners' Earnings**	\$9.7	\$6.3				

\* EPS is calculated as Statutory NPAT divided by shares outstanding. There is a share buy back in place. Immediately prior to the buy back there were 45,497,181 shares outstanding. As at 30 June 2019, there were 45,495,000 shares outstanding, and as at the current date, 4,543,184 shares are authorised for on market buy back.

\*\* Owners Earnings is calculated as Cash from Operations less maintenance capex.

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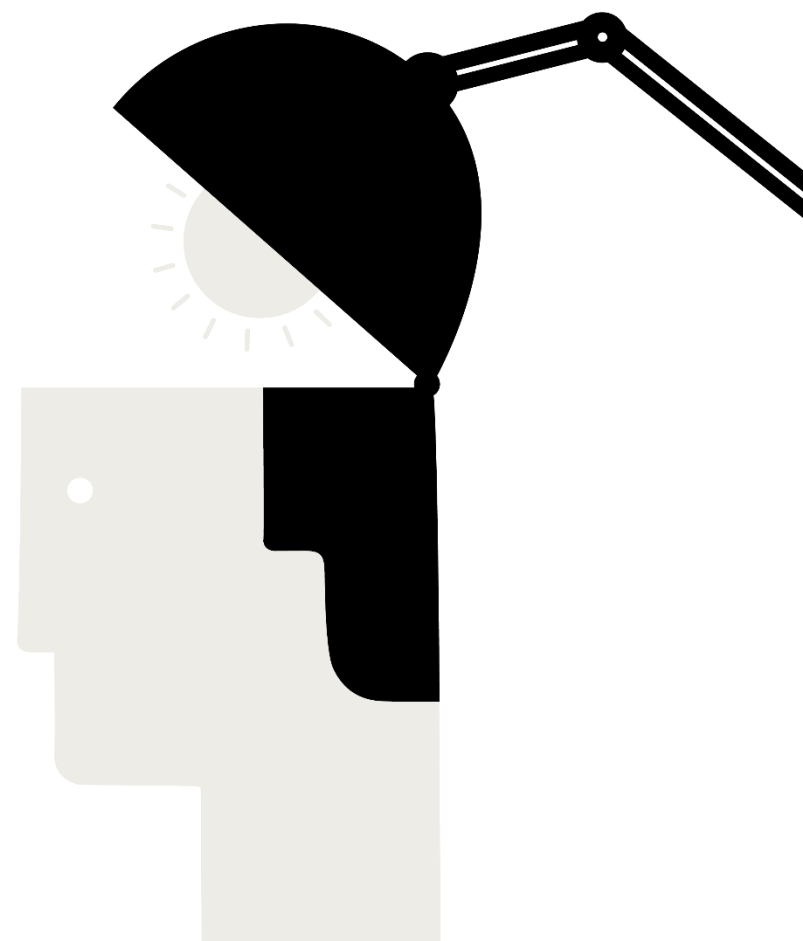
# + Operational Highlights

Strong growth

Organic Growth	Network Expansion
<ul style="list-style-type: none"> <li>Organic Revenue (excl. Sydney CBD) up 7.5%, driven by both volume and price growth.</li> </ul>	<ul style="list-style-type: none"> <li>3 Tuck in acquisitions</li> <li>1 Marquee acquisition</li> <li>\$3.0-4.0m expected full year revenue contribution in FY20</li> <li>\$2.5m revenue YTD (+6.4% revenue growth YTD)</li> </ul>
Developing people, systems and processes	Other Services
<ul style="list-style-type: none"> <li>IT server upgrade implementation in FY2019</li> <li>Ongoing client managers and business managers training</li> </ul>	<ul style="list-style-type: none"> <li>56% revenue growth in Other Services (Wealth Management, Finance, Corporate Advisory, Investment Office)</li> <li>Complementary service to existing client base.</li> </ul>

# + Business Overview

Using an owner-driver model, the Company acquires a majority interest (>50%) in the Operating Businesses to drive long-term strategic alignment, and help solve the succession dilemma.

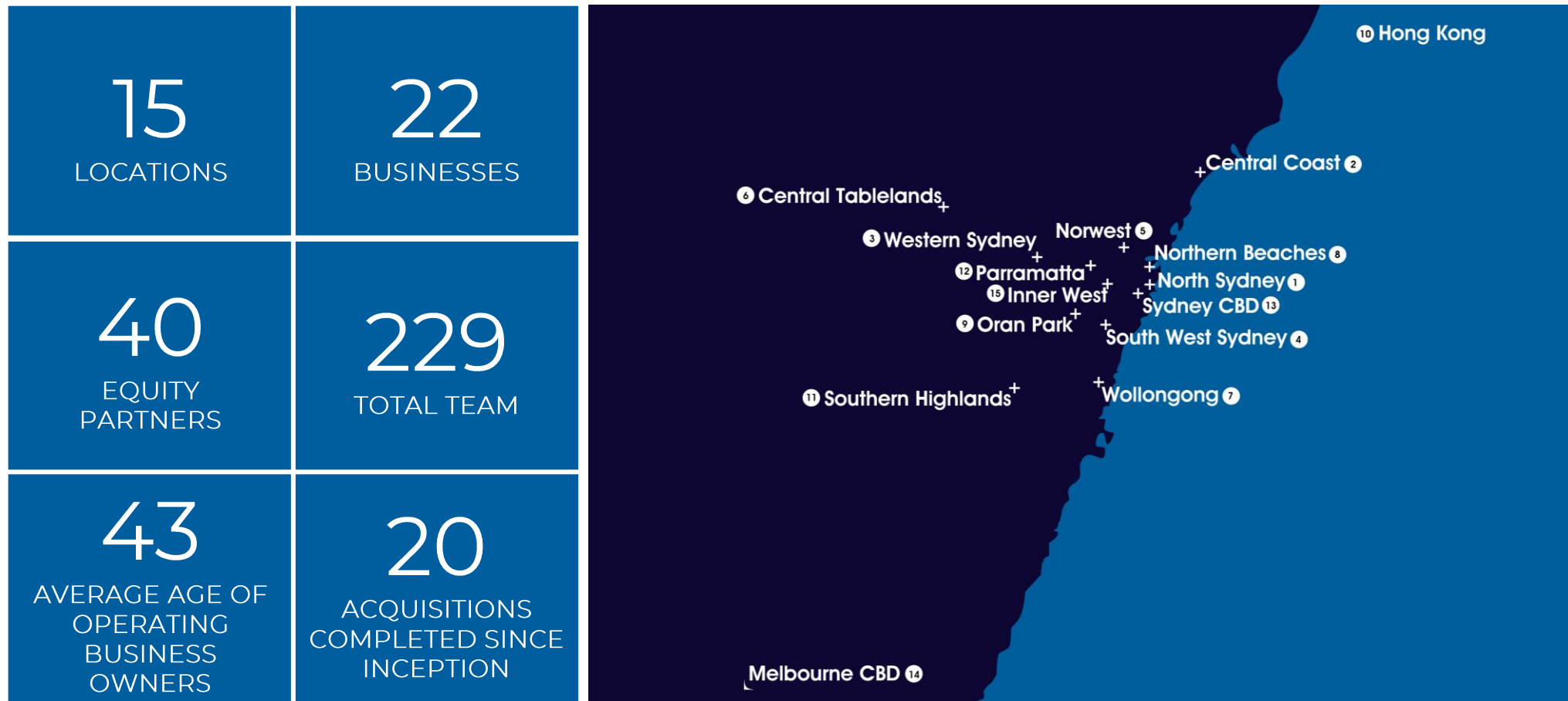


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# + Kelly+Partners Key Statistics

+ 13 years to date of strong and growing NSW presence

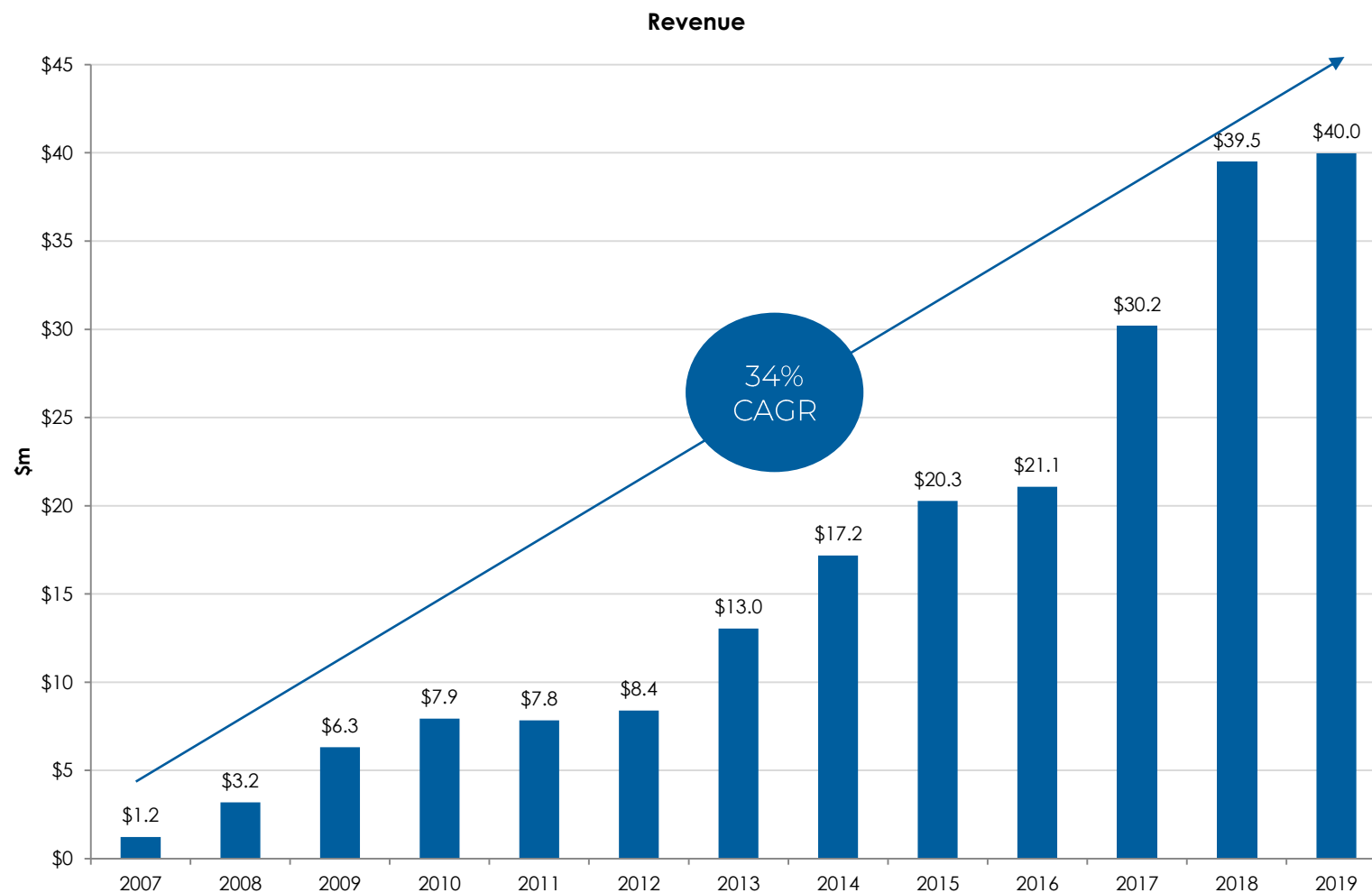


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# + Track Record of Growth

13 Years of successful integrations complemented by strong CAGR



Audited numbers from FY13

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# **KPG Business Model**

+ “Owner-driver” operating model which aligns interests

## **1. Equity Distributions**

Distributions from >50% shareholding from each underlying Operating Business, paid pretax each month.

## **2. Management Services Fees**

Fixed percentage fee based on revenue paid monthly by the Operating Businesses for the Company’s centralised management and back-office services.

## **3. Intellectual Property Fees**

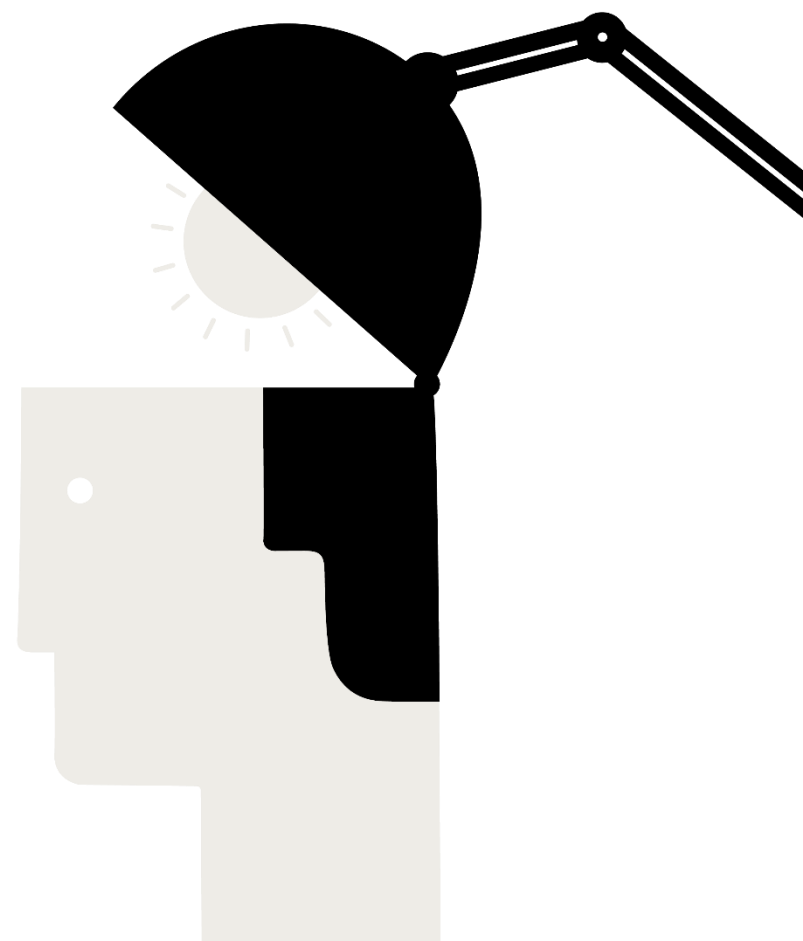
Fixed percentage fee based on revenue paid monthly by the Operating Businesses for use of the Company’s brand, marketing, and intellectual property.

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# +Financials

K+P has a high margin, but capital light business model with a recurring, defensive revenue stream.



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# + FY19 Income Statement

Revenues in line with guidance, driven by increased organic and acquired billings

Income Statement Summary (\$m)*	FY19	FY18	Δ%
Revenue	\$40.0	\$39.5	1.3%
Commissions & Other Income	\$0.1	\$0.2	-5.2%
<b>Total Revenue, Commissions &amp; Other Income</b>	<b>\$40.1</b>	<b>\$39.6</b>	<b>1.3%</b>
Operating Expenses	-\$29.2	-\$26.2	11.6%
<b>Underlying EBITDA</b>	<b>\$10.9</b>	<b>\$13.4</b>	<b>-18.9%</b>
Non Recurring Expenses	-\$0.9	-\$1.1	-12.5%
Change in fair value of earnout consideration	\$0.2	\$1.2	-81.6%
<b>Statutory EBITDA</b>	<b>\$10.2</b>	<b>\$13.6</b>	<b>-25.0%</b>
D&A	-\$1.2	-\$1.0	20.4%
Finance Costs	-\$0.9	-\$0.6	42.1%
Income Tax	-\$0.9	-\$1.9	-53.7%
<b>Statutory NPAT</b>	<b>\$7.1</b>	<b>\$10.0</b>	<b>-28.3%</b>
Amortisation	\$0.7	\$0.7	13.4%
<b>Statutory NPATA</b>	<b>\$7.9</b>	<b>\$10.6</b>	<b>-25.7%</b>
<i>Underlying EBITDA margin</i>	<i>27.1%</i>	<i>33.9%</i>	
<i>Statutory NPATA Margin</i>	<i>19.7%</i>	<i>26.8%</i>	

\* Rounded to the nearest \$100,000

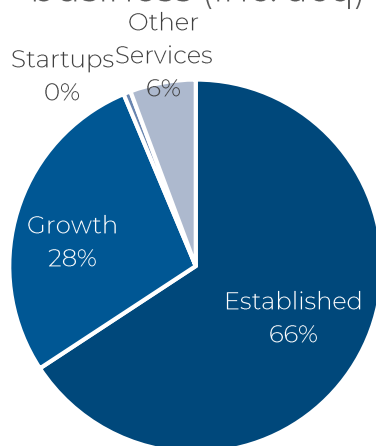
- Revenue from ordinary activities grew to \$40.0m (+\$0.5m, up 1.3%), driven by acquisitions, contributing \$2.5m on YTD basis, organic growth.
- Opex of \$29.2m (+\$2.9m on FY18), of which \$1.6m relates to ongoing operating expenses in the acquired entities, \$0.6m controlled entities (primarily wage growth); and \$0.7m the parent – primarily wages, marketing and compliance.
- Non recurring expenses relate primarily to acquisition costs.

# + FY19 Revenue

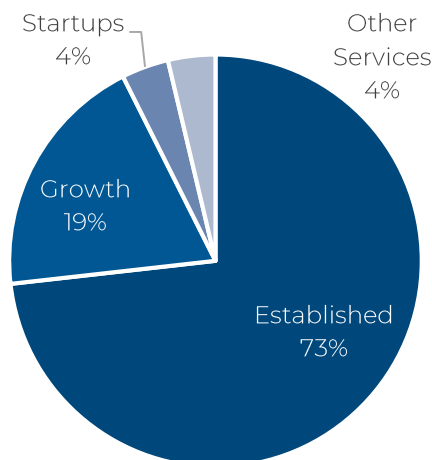
Increased revenue contributions from growth businesses

Stage of Business	Revenue	No. of businesses	FY19		No. of businesses	FY18	
			\$m	% of Total		\$m	% of Total
Established	>\$2m	5	\$26.3	65.8%	5	\$28.9	73.2%
Growth	\$1m to \$2m	7	\$11.2	27.9%	5	\$7.6	19.4%
Startups	<\$1m	2	\$0.3	0.6%	4	\$1.5	3.7%
Other Services		7	\$2.3	5.7%	7	\$1.5	3.7%
<b>Total</b>		<b>21</b>	<b>\$40.0</b>	<b>100.0%</b>	<b>21</b>	<b>\$39.5</b>	<b>100.0%</b>

FY19 - Revenue split by stage of business (inc. acq)



FY18 - Revenue split by stage of business (inc. acq)



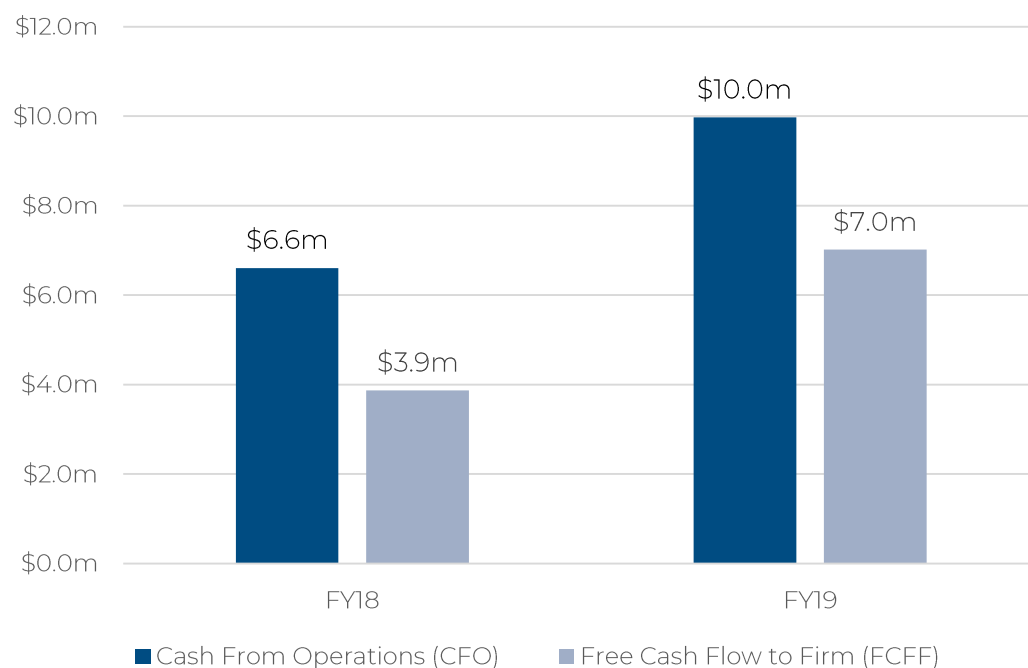
- Good transition of businesses and revenue from Start-up to Growth.
- Strong growth in Revenue from Other Services.
- Established businesses impacted by Sydney CBD.

# +FY19 Cashflow

Strong cash conversion underpinning good earnings quality

- Strong Cash from Operations (CFO) driven by billings growth and lock up reduction.
- Strong Cash Conversion of 98% (CFO to EBITDA). Good earnings quality.
- Disciplined debt reduction on acquisitions facilities.
- Growth capex includes one-off fit-out upgrade in Sydney CBD office.
- Drawn debt used to fund acquisitions, growth capex and other items.

Cashflow Comparatives



Cash Flow (\$m)*	FY19	FY18	Diff \$	Diff%
Cash From Operations (CFO)*	\$10.0	\$6.6	\$3.4	51.0%
- Maintenance Capex	-\$0.3	-\$0.3		
- Schedule Debt Reductions	-\$2.7	-\$2.4		
Free Cash Flow to Firm (FCFF)	\$7.0	\$3.9	\$3.1	81.3%
- Acquisitions	-\$3.1	-		
- Growth Capex	-\$1.9	-\$0.4		
- Net Debt Drawn exc. Overdrafts	\$6.0	\$2.3		
- Net Partner Loans Advanced	-\$1.4	\$0.4		
- Dividends to shareholders	-\$2.0	-\$1.4		
- Distributions to minorities	-\$4.7	-\$4.5		
Change in Net Cash**	\$0.0	\$0.3		

\* Rounded to nearest \$100,000. Refer to Appendix for a reconciliation from Statutory NPAT to Cash from Operations

\*\* As per the Statutory Cash Flow Statement

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# FY19 Balance Sheet

## +Conservatively geared balance sheet

- Total Asset growth to \$49.5m (+\$5.0m) driven by acquisitions.
- Conservative capital structure with 49.8% Equity / Total Assets ratio, and Net Debt / EBITDA of 1.4x
- Lock up reduced to \$7.6m (-\$2.5m). Lock up days reduced to 69.6 from 93.2 days.
- Total Borrowings of \$18.6m include \$8.9m debt attributable to equity partners; \$7.2m debt attributable to the parent ((which includes acquisition funding of controlled entities, parent working capital, and some equipment finance) and \$2.5 relates to overdrafts, which are covered c. 3.0x by \$7.6 in Lockup.
- Partner attributable debt averages \$222k per partner (40 equity partners)

\$m (consolidated)*	Balance Sheet	
	Reported FY19	Reported FY18
Cash	4.0	3.4
Lock up (Debtors + WIP)	7.6	10.1
Intangibles	27.2	23.9
<b>Total Assets</b>	<b>49.5</b>	<b>44.5</b>
Borrowings	(18.6)	(14.8)
<b>Total Liabilities</b>	<b>(6.3)</b>	<b>(20.4)</b>
<b>Net Assets</b>	<b>24.6</b>	<b>24.1</b>
Non-Controlling Interest	9.3	9.2
<b>Equity attributable to KPGH shareholders</b>	<b>15.4</b>	<b>14.9</b>
Net Debt – attributable to KPGH shareholders	(6.6)	(6.7)
Net Debt – attributable to operating businesses	(8.0)	(4.7)
Net Debt – consolidated	(14.6)	(11.4)

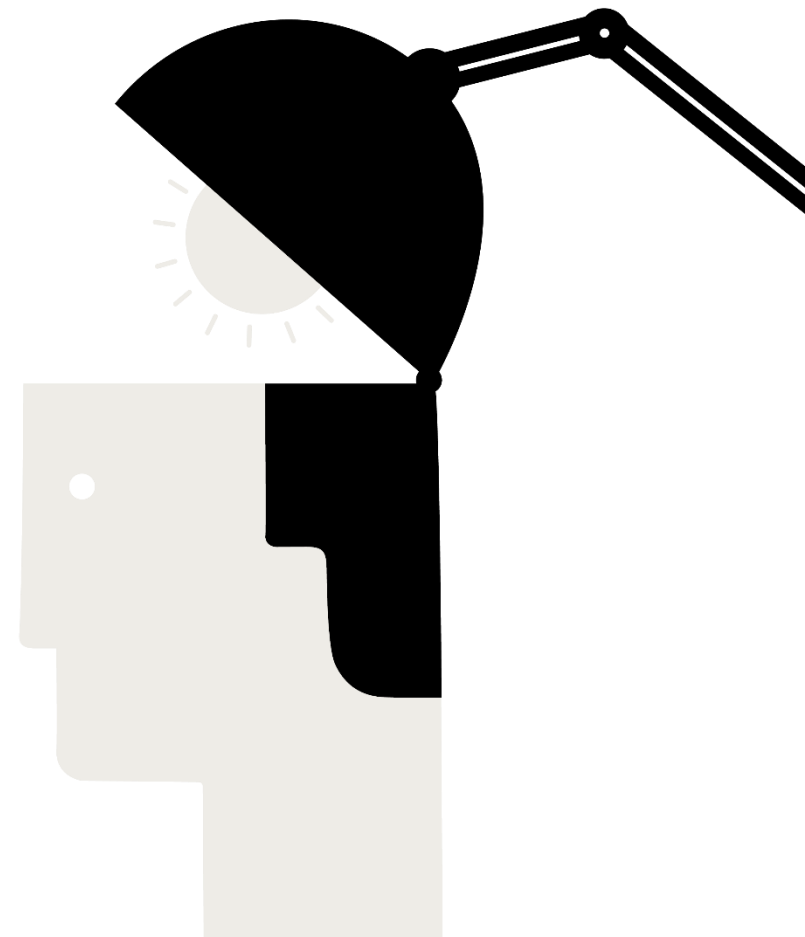
\* Rounded to the nearest \$100,000

# FY19 Dividends

+ Consistent quarterly dividends with payout increased to 1.1c per share

	Payment date	Total fully franked dividends paid	Amount per security Cents	Fully Franked amount per security Cents
<i>For the year ended 30 June 2018</i>				
Final dividend	12 Jul 2018	\$454,972	1.00	1.00
<i>For the year ended 30 June 2019</i>				
First interim dividend	30 Oct 2018	\$500,469	1.10	1.10
Second interim dividend	31 Dec 2018	\$500,469	1.10	1.10
Third interim dividend	29 Mar 2019	\$500,469	1.10	1.10
Total Fully Franked dividends paid		\$1,956,379	\$4.30	\$4.30

# + Outlook and Future Growth



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# 5 Year Growth Strategy

+ Three pronged growth strategy

EXISTING GROUP	ORGANIC	NETWORK EXPANSION			NEW SERVICES	TARGET GROUP
	ORGANIC GROWTH	ACQUISITION – TUCK-IN	ACQUISITION – MARQUEE	OR GREENFIELD		
	5% p.a	2+ tuck-ins per year 8 existing sites \$1.0m+ revenue each 112 spare seats Integration cost 10% of price 60 days integration Target ROI – 30%+	5 new sites \$2.0m+ revenue each 2+ partners Integration cost 20% of price 2 year integration Target ROI – 30%+	5 new sites \$2.0m revenue target 2 partners target Start-up cost \$50-\$250k 3 years to target metrics Target ROI – 30%+ after 3 years	Wealth Finance Corporate Advisory Investment Office	
	Self Funded / Overdraft	Self Funded / Overdraft	Self Funded / KPG / Overdraft	Self Funded / Overdraft	Self Funded / Overdraft	Self Funded / Overdraft
~\$41m Revenue	\$12m+ Revenue Opportunity	\$12m+ Revenue Opportunity	\$10m+ Revenue Opportunity		\$5m+ Revenue Opportunity	\$80m+ Revenue Opportunity
~\$10m EBITDA	\$4.2m+ EBITDA Opportunity	\$4.2m+ EBITDA Opportunity	\$3.5m+ EBITDA Opportunity		\$1.8m+ EBITDA Opportunity	\$28m+ EBITDA Opportunity

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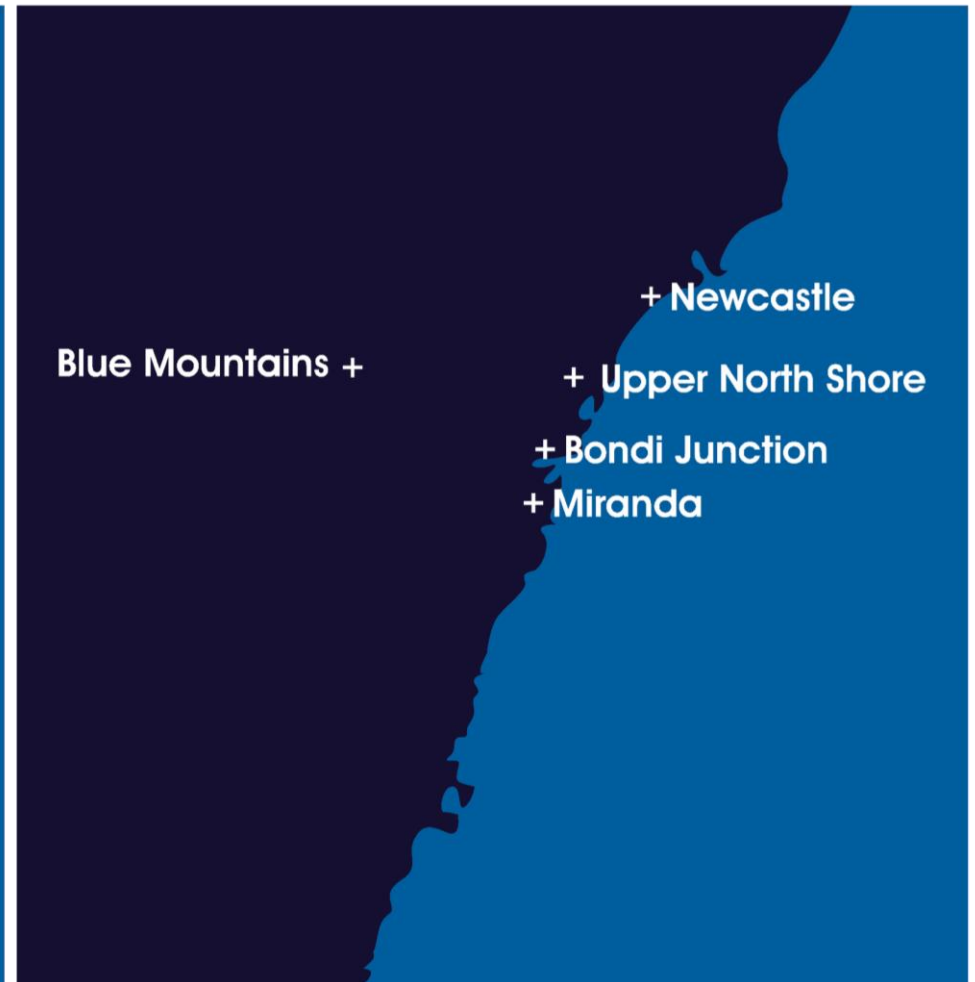
# + Acquisition: Tuck-in & Marquee

Targeted acquisitions sites

Tuck-In (8 existing sites)



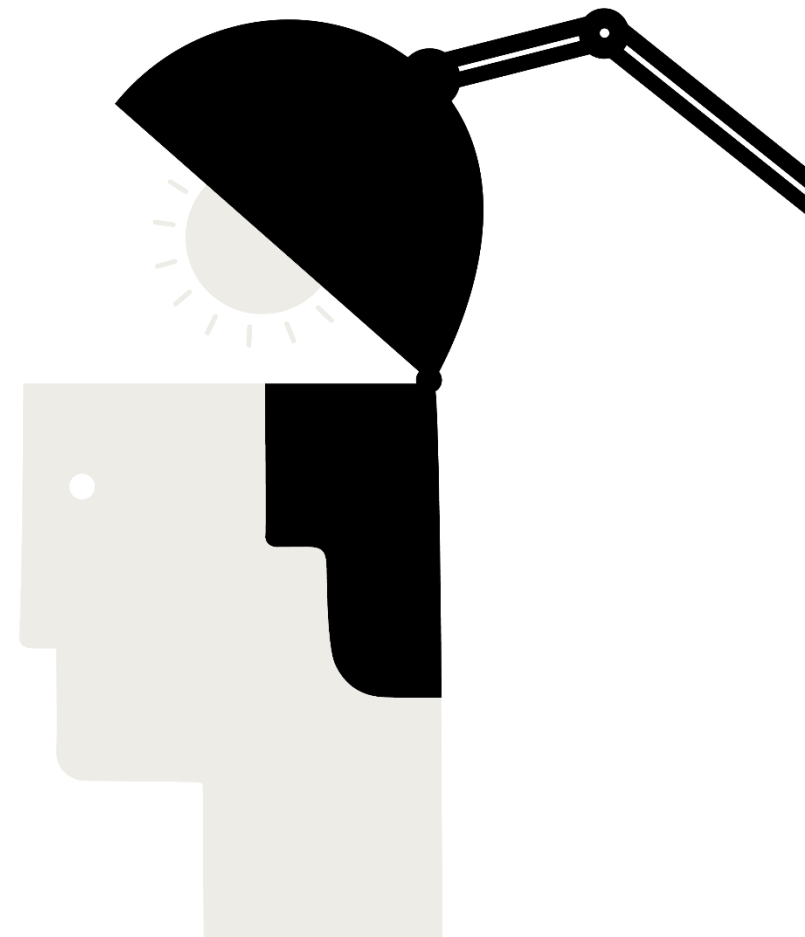
Marquee (5 new sites)



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# +Appendix



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## NPAT to Operating Cashflow Reconciliation

Reconciliation of NPAT to Operating Cashflow	FY19	FY18
Reported NPAT	7.1	10.0
<u>Adjustments for:</u>		
Depreciation and amortisation	1.2	1.0
Shares issued to employees	-	0.2
Change in fair value of contingent consideration	(0.2)	(1.2)
Net fair value (gain)/loss on other financial assets	0.0	-
Unwinding of interest on contingent consideration	0.0	-
Other non-cash movements	0.0	0.5
<u>Change in operating assets and liabilities:</u>		
Decrease/(increase) in trade and other receivables	1.8	(2.3)
Decrease/(increase) in deferred tax assets	(0.7)	0.5
Increase/(decrease) in trade and other payables	0.1	(2.2)
Increase in provision for income tax	0.5	0.0
<b>Net cash from operating activities</b>	<b>10.0</b>	<b>6.6</b>



## Reported NPATA to Underlying NPATA Reconciliation

Reconciliation of attributed NPAT/NPATA (\$m)	FY19	FY18
Reported attributed NPAT	2.4	4.4
<u>Non-recurring items:</u>		
Add:		
Acquisition costs	0.2	-
Restructuring costs	0.3	0.4
Shares issued to employees under ESS	-	0.2
Final costs relating to IPO	-	0.1
Other	0.2	0.1
Less:		
Change in fair value of contingent consideration	-0.1	-1.2
Tax effect of non recurring items	-0.1	-0.3
Sub total Non-recurring items (after tax)	0.4	-0.6
Underlying NPAT (post amortisation)	2.8	3.8
Add back amortisation of intangibles (after tax)	0.4	0.5
<b>Underlying attributed NPATA (pre amortisation)</b>	<b>3.2</b>	<b>4.3</b>

# + Definitions

**EBIT** = Earnings Before Interest And Tax

**EBITDA** = EBIT before Depreciation and Amortisation

**EPS** = Earnings per Share

**EPSA** = Earnings per Share before Amortisation

**NPAT** = Net Profit After Tax

**NPATA** = Net Profit After Tax and before Amortisation of Customer Relationship Intangibles

**OWNER EARNINGS** = Cash from Operations less Maintenance Capex

**ROE** = Return on Equity

**ROIC** = Return on Invested Capital

# + Disclaimer

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August 2019

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