KP+GH

KELLY PARTNERS GROUP HOLDINGS LIMITED

ASX ANNOUNCEMENT

Friday 11 August 2023

FY23 Group Revenue up 33.4% to $86.5m (FY22: $64.5m)

FY24 Group Revenue Run-Rate up 15-27% to $100m-$110m

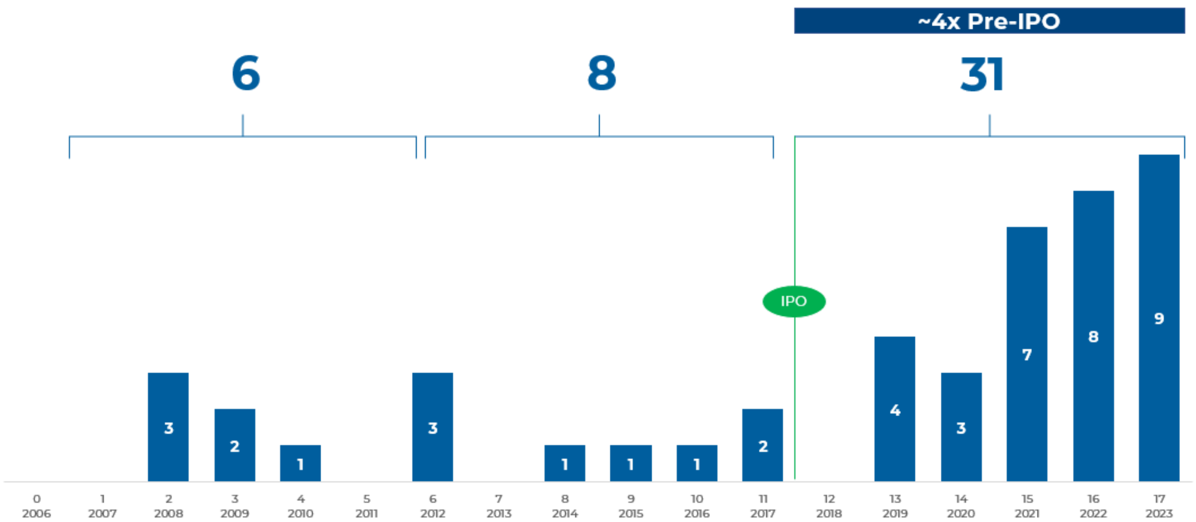
KPG FY23 Underlying attributed NPATA[i] down -14.2% to $5.4m

KPG FY24 attributed NPATA Run-Rate up 85%-104% to $10m-$11m

FY23 Highlights – Overview

- KPG were presented with an unusual number of quality firms that wanted to join the Group in 2022 and 2023 resulting in the largest amount of firms acquired and integrated in two years since the founding of the business in 2006. These acquisitions will deliver a ~60% increase in revenue in FY24 (from $64.9m revenue in FY22 to $100-$110m in FY24) and secure the group's leading position in the Australian accounting industry.
- KPG has significantly invested in order to accommodate this exceptional growth, which has impacted the underlying earnings in this single year but will make a significant contribution to the strength of the Group in the long term

Number of acquisitions completed since inception



Note: based on acquisitions that are announced in the stated financial year, e.g. acquisition that was announced in FY22 but completed in FY23 is shown in FY22.

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FY23 Highlights – Business

- **Mission, Values & Vision –** We exist to help our people, Private Business Owners and the communities in which we work in be better off
- **Strategy** – new locations - NSW - 6, QLD. - 2 Commencement of a global expansion of business into the US and UK with new offices opened in Malibu, California in January 2023 and in Newport, California in February 2023. We have also opened our new office in Mumbai, India in line with our strategy to develop a global team.
- **Structure** - Partner-Owner-Driver® model implemented in 8 acquisitions completed in FY23
- **People –** awarded Great Place to Work for the second year with team members awarding a 90% score to the business
- **Clients -** Net Promoter® Score[ii] of +70 vs an industry average of -18[iii], client groups increased by 41% to 19,000+
- **Financial –** see below
- **Digital –** Be Better Off Challenge, Kelly+Partners app
- **Brand –** 80% of clients associate "Transparency" and "24/7 Access" attributes to Kelly Partners[iv]
- **Growth –** 33.4% revenue growth in FY23, 28.7% acquired growth and 4.7% organic growth[v]
- **Succession –** assisted senior practitioners from 8 acquisitions manage their succession

FY23 Highlights - Financials

Consolidated Group

- Group Revenue up 33.4% to $86.5m (FY22: $64.5m)
- Underlying EBITDA (pre-AASB16) down -1.6% to $19.7m (FY22: $20.0m)
- Underlying EBITDA margin (pre-AASB16) of operating businesses at 27.3% (FY22: 30.9%)
- Cashflow from Operations (pre-AASB 16) up 8.2% to $15.4m (FY22: $14.3m)
- Number of active client groups up 41% to c.19,000 (FY22: c.13,500)

Attributed Parent

- Underlying NPATA down -14.2% to $5.4m (FY22: $6.3m)
- Owner Earnings down -5.0% to $6.0m (FY22: $6.3m)
- Underlying NPATA Earnings Per Share (EPS) down -14.2% to 12.01c (FY22: 13.99c)
- Ordinary Dividends per Share (DPS) up 10.0% to 6.44c (FY22: 5.85c)

Financial Highlights ($m)	KPGH & Controlled Entities			KPGH Parent Only		
	FY22	FY23	%	FY22	FY23	%
Revenue	**$64.9**	**$86.5**	**33.4%**			
Underlying EBITDA	$23.1	$24.3	5.0%			
Underlying EBITDA (pre. AASB16)	$20.0	$19.7	-1.6%			
EBITDA Margin (%)	30.8%	22.7%	-8.1%			
EBITDA Margin (%) - Operating Businesses	30.9%	27.3%	-3.6%			
Underlying NPATA	**$14.2**	**$13.6**	**-3.9%**	**$6.3**	**$5.4**	**-14.2%**
NPATA Margin (%)	21.8%	15.7%	-6.1%			
Statutory NPAT	**$13.3**	**$11.1**	**-17.0%**	**$5.6**	**$3.9**	**-29.4%**
Earnings per share (cents)				13.99c	12.01c	-14.2%
Ordinary dividends per share (cents)				5.85c	6.44c	10.1%
Return on Equity	41.7%	38.4%	-3.4%	30.4%	26.3%	-4.1%
Return on Invested Capital	22.3%	20.0%	-2.3%	30.5%	24.4%	-6.1%
Owners' Earnings	$9.1	$14.9	64.1%	$6.3	$6.0	-5.0%

Financial Performance

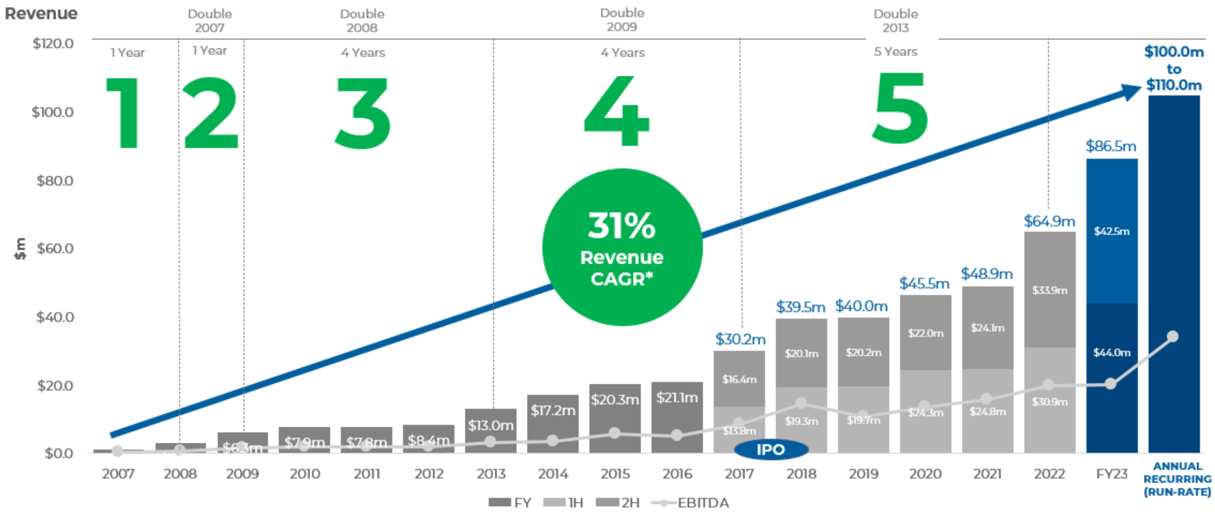
Consolidated Group

- ***Revenue of $86.5m (+$21.7m, up 33.4%)***: Acquired revenue growth of $18.7m contributed 28.7% of total revenue growth, with in year acquisitions completed in FY23 contributing $10.8m and revenue from the acquisitions completed in FY22 contributing $7.9m[vi]. Revenue from organic growth contributed 4.7% of the overall growth. We are pleased that both acquired and organic revenue growth have exceeded or substantially met the Group's targets of 5% each. Excluding organic growth from acquisitions made in the previous 12-24 months (where significant price or volume changes are typically not implemented in the vendors' retention period), accounting businesses grew at **4.8%** organically on prior year.
- ***Group Underlying EBITDA pre AASB of $19.7m (-$0.3m, down -1.6%)***: Underlying EBITDA margin pre AASB 16 as a % of revenue was lower at 22.7% (FY22: 30.8%) mainly due to additional investments in people, technology and processes by the parent entity. Operating business EBITDA margin also reduced to 27.3% (FY22: 30.9%) mainly as a result of a drag in margins from recently completed acquisitions. On a cohort level, our established operating businesses (i.e. with annual revenues >$2.0m) generated EBITDA margins of 30.4% whilst our growth ($1m-$2m) and subscale businesses (<$1m) generated EBITDA margins of 17.6% and 15.8% respectively. Acquired businesses generated 16.5% EBITDA margins. Management continues to focus its efforts on improving all business' profitability to 35% EBITDA.
- ***Cashflow from Operating Activities pre AASB 16 of $15.4m was up 8.2% on FY22*** with cash conversion ratio of 94.4%.
- ***Group Net Debt of $39.9m increased $8.5m or 27.3% on FY22*** as a result of new borrowings for FY23 in year acquisitions and buy-ins of new and existing partners. Gearing ratio has increased to 1.65x (FY22: 1.36x) (Net Debt / Underlying EBITDA). Gearing ratio calculated on Underlying EBITDA of operating businesses (i.e. excluding additional investments of the parent entity) was 1.49x. The Group does not view the increased gearing ratio as a risk given acquisition debt is amortised and repaid through profits generated from the acquired business and is expected to be repaid in full over a 4-5 year term. Total debt repayments (scheduled and additional) totalled $8.8m (22% of Net Debt) in FY23.

Attributed Parent

- ***Underlying NPATA attributable to Shareholders of $5.4m (-$0.9m, down -14.2%)*** which excludes non-recurring income and expenses. Refer to Directors Report and Results Presentation for reconciliation between Statutory NPAT and Underlying NPATA.
- ***Owner earnings of $6.0m (-$0.3m, down -5.0%)*** reflect the cash from operations to the parent and the strong conversion of profit to cash.
- ***No shares issued since IPO in 2017****, issued shares are currently 45,000,000 shares.*

Revenue growth since inception and since IPO



Operational Updates

- ***Number of offices increased from 19 to 32*** mainly through completing the acquisitions in FY23. We are also pleased to announce the opening of our first US office in Malibu, California and Newport, California, as well as our first new office in Mumbai, India in line with our goal to expand the business globally.
    1. Hunter Region, NSW – Dungog
    2. Hunter Region, NSW – Taylors Beach
    3. Hunter Region, NSW – Singleton
    4. Hunter Region, NSW – Gloucester
    5. Leeton, NSW
    6. Palm Beach, QLD
    7. Maitland, NSW
    8. Malibu, United States
    9. Newport, United States
    10. Brisbane, QLD
    11. Mumbai, India
- ***Number of operating business partners increased to 78 with a record 20 new partners joining the group,*** 12 from completed acquisitions, 6 internal promotions and 2 external recruits. Since 1 July 2023, 14 new partners joined the group (12 from acquisitions, 2 from internal promotions), taking the total number of equity partners to **92**.
- ***Number of active client groups increased 41% from c.13,500 to c.19,000*** providing further opportunities for growth and network effects.

Current Year Acquisitions

During FY23, the Group completed 8 acquisitions with estimated total annual revenues in the range of $10.1m to $12.8m. Further, the Group has completed one acquisition in July 2023 with estimated total annual revenues in the range of $7.0m to $10.0m. In aggregate, the Group has completed nine acquisitions with estimated total annual revenues in the range of $17.1m to $22.8m, representing 26.3% to 35.1% of FY22 revenue. The annual run-rate revenue for the Group is ~$107m (including a further acquisition with revenues of $2.1m that is expected to be completed in August 2023) and has well surpassed the $80m target revenue for FY24 per the Group's 5-year plan.

The completed acquisitions in FY23 are listed in the table below:

#	Acquired / scheduled	Location	Type	Acquired Revenue
(1)	Jul-22	Hunter Region, NSW	Marquee	$3.4m - $4.2m
(2)	Sep-22	Leeton, NSW	Marquee	$0.8m - $1.0m
(3)	Sep-22	Palm Beach, QLD	Marquee	$1.6m - $2.1m
(4)	Oct-22	Maitland, NSW	Marquee	$1.5m - $2.2m
(5)	Nov-22	Melbourne, VIC	Tuck-in	$0.5m
(6)	Dec-22	South West Brisbane, QLD	Marquee	$0.6m
(7)	Apr-23	East Sydney, NSW	Marquee	$1.2m - $1.7m
(8)	Apr-23	Brisbane CBD, QLD	Marquee	$0.5m
Acquisitions completed in FY23				**$10.1m - $12.8m**
% of FY22 Revenue ($64.9m)				**15.6% - 19.7%**
(9)	Jul-23	Griffith, NSW	Marquee	$7.0m - $10.0m
Acquisitions completed in FY24				**$7.0m - $10.0m**
% of FY22 Revenue ($64.9m)				**10.8% - 15.4%**
Total Acquisitions since 1 July 2022				**$17.1m - $22.8m**
% of FY22 Revenue ($64.9m)				**26.3% - 35.1%**

Additional investment expenditure by the parent entity

Since the IPO, the parent entity has continued to invest to further develop the capabilities of the central services team and to enable the business to be positioned for long term growth as well as to increase its competitive advantage. These investments have sometimes exceeded the central Services Fee and IP Fee income that the parent entity receives from its operating businesses, as shown in the table below.

As communicated in a market announcement in Oct-22, the parent entity has continued to invest heavily in Brand and Digital this half year to:

1) support the Group's accelerated expansion through acquisitions that has occurred in the past 2 years and to enable such growth to continue in the future; and
2) expand the Group globally, particularly into the US and UK, where significant opportunities exist.

	FY18	FY19	FY20	FY21	FY22	FY23
Group Revenue	$39,468,666	$39,975,031	$45,495,584	$48,906,446	$64,862,110	$86,524,364
Additional investments	$371,913	$742,439	$1,630,905	$371,127	$77,836	$2,479,110
% of Group Revenue	0.9%	1.9%	3.6%	0.8%	0.1%	2.9%

Employee Share Scheme

In Jul-23, the Company offered KPG shares via its Employee Share Scheme (ESS) Trust to senior team members in the Central Services Team in order to recognise their contribution. Founder and CEO Brett Kelly did not participate in the plan. In total 250,000 of KPG shares were allocated, vested annually over 10 years. All shares allocated were previously purchased by the Company via the ESS Trust using the operating cashflows of the business, so no shareholders will be diluted as a result of this allocation and neither will this program require any additional cash commitments from the business.

As the allocated shares were purchased at an average price of $4.36, over 10 years the annual impact on the parent entity earnings is ~$70K post tax per annum, while providing significant value to our key employees through share price accretion. The 10 year vesting period also ensures our senior team members are aligned and focussed on creating value for KPG for the long term.

Dividends Paid in FY23

During the year, KPG paid the final and special dividends related to FY22. The total dividends paid related to FY22 was 8.17 cents per share, equating to a payout ratio of 58.4% of Underlying NPATA. KPG has also continued to pay monthly dividends in FY23 and has grown such dividends by 10%.

KPG expects to pay a final dividend of 1.65 cents per share prior to November 2023. Total ordinary dividends paid relating to FY23 will be 6.44 cents per share, increasing 10% on prior year ordinary dividends paid of 5.85 cents per share. KPG may consider paying a special dividend relating to FY23. The dividend payout ratio for FY23 is expected to be 53.6%-61.0% of Underlying NPATA.

In Jul-23 the Company announced a further 10% increase in its monthly dividends for FY24. The Company also notes that the current dividend policy will be subject to review in the next 6-12 months as the Company considers moving to a no dividend policy as part of a process of determining its optimal capital allocation.

Strategic review

The Board of Directors of Kelly Partners Group Holdings is actively pursue a broader, more comprehensive strategic review of our current ownership and capital structure. To help facilitate this strategic review we have appointed legal, tax and financial advisors to consider options that will maximise value for all shareholders and to close the gap between what we believe is the intrinsic value of the Company and today's market capitalisation.

The strategic review assessment is in a preliminary phase and will assist our Board to consider various alternatives to drive shareholder value. The alternatives include options that range from, for example, the optimal listing venue for KPG (e.g. redomiciling to a US listing venue) or a potential privatisation of KPG, amongst others.

As we undertake this strategic review, we remain focused on executing our plan, committed to our clients and team, and maximizing the opportunity to ensure the best outcome is delivered for all stakeholders over the long term.

The Board has not set a timetable for completing the process and will disclose developments relating to the strategic review when the Board has approved a specific strategic initiative, transaction or process, or has terminated its review, as there can be no assurance that the review will result in any transaction.

Total Shareholder Return ('TSR') since IPO in June 2017 up to 30 June 2023

Since IPO, KPG has delivered a 33.0% compounded annual return to its shareholders through an appreciation in share price as well as regular dividends paid.

KPG.ASX Return	Issue price at IPO	FY18	FY19	FY20	FY21	FY22	FY23	Total
Share Price	$1.00						$4.49	$3.49
Dividends per share - Ordinary		$0.04	$0.04	$0.05	$0.05	$0.06	$0.05	$0.29
Dividends per share - Special				$0.01	$0.02	$0.02		$0.05
Total Shareholder Return ($)								$3.84
Total Shareholder Return (%)								383.5%
Total Shareholder Return – Annual %								**32.96%**

On EBITDA

Underlying EBITDA as a core measure has been criticised for ignoring the cash implications of capital investment requirements. Kelly Partners has historically used EBITDA as a measure of performance because typically depreciation charges have been extremely low or negligible (<1.5% of revenue prior to FY20), reflecting the minimal capital requirements in accounting businesses. Where depreciation charges have been minimal, EBITDA equates roughly to EBITA.

Depreciation charges for the group have increased in recent years due to depreciation of the cost of fitouts completed across Kelly Partners offices and now amounts to ~2.3% of group revenues. In light of this, EBITA will be introduced as a measure of performance going forward. Note that this will mean the targeted EBITA ratio will be 32.5% (35.0% EBITDA target less depreciation of ~2.3%). For the purposes of maintaining a consistent comparison to prior year results, EBITDA is still presented in the directors' report and in the results presentation and announcements, however EBITA numbers will be reported in the future.

Commenting on the FY23 performance of the Group, Founder & CEO Brett Kelly said:

"We cannot continue to invest and deliver the world class people, client and community impact we are known for and justify the investment if we don't grow globally. Our clients over the next 25 years are all going to have to earn a return on a global basis and will need their accountants to help them operate in this new global world.

To that end, we have been able to grow our Australian businesses to $100m+ revenue this year and we look to expand our international presence to the US and the UK, where we see significant opportunities exist (Australia's two largest expat communities). As such, we have invested heavily in our people, our brand and our digital infrastructure to facilitate this growth.

This market position as 'Australia's global accounting firm' will take effort to build out in the short term and ultimately be a valuable differentiated market position over the long term that is inspiring to the talent we seek to attract."

Directors Report & Shareholders Letter

Shareholders are encouraged to read the "Directors Report" contained in the 2023 Financial Report as well as the "Shareholders Letter" for detailed analysis and commentary on the financials, in addition to the above announcement.

Post-Results Conference Call

Kelly+Partners Group will be holding a FY23 results presentation at 10:00am (Sydney time) today 11 February 2023, followed by a Q&A session.

To register, please visit

https://us02web.zoom.us/webinar/register/WN_Ai0Dj1IaTquoQUeTQ4ceRg

For more information, please contact:

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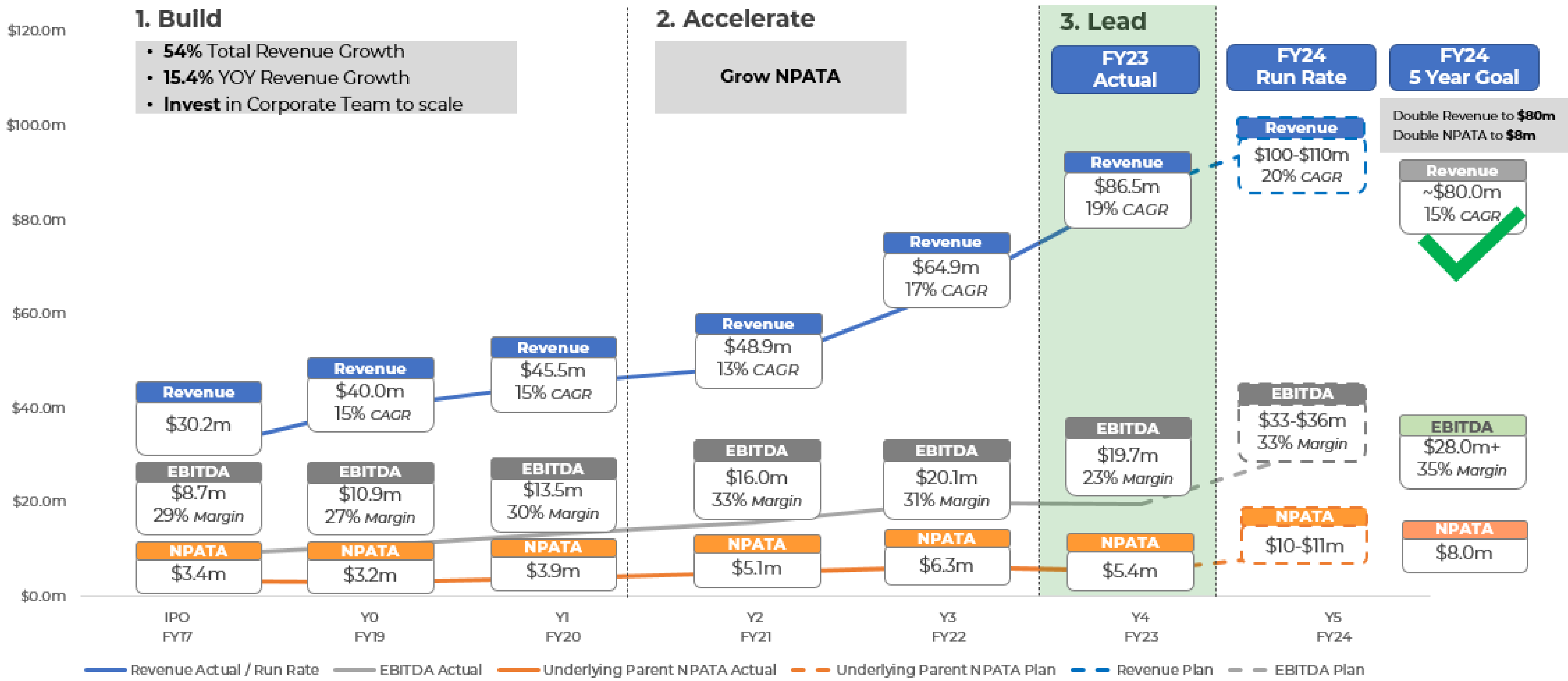
The Board of Directors of Kelly Partners Group Holdings Limited, has approved the release of this document to the market.

Appendix: KPG - 5 Year Growth Plan



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KELLY PARTNERS GROUP HOLDINGS LIMITED

Kelly+Partners – Current Office Locations – NSW & ACT

Kelly+Partners – Current Office Locations – VIC

Kelly+Partners – Current Office Locations – QLD

Kelly+Partners – Current Office Locations – International

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Certified B Corporation

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 38 operating businesses across 32 locations in Australia, United States and Hong Kong.

In total, the team consists of more than 450 people, including 92 partners, who service over 19,000 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 63 individual transactions in order to build the current accounting network. This includes the transformation of 48 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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Endnotes

[i] Underlying Attributed NPATA is adjusted for 1) amortisation of customer relationship intangible assets acquired; 2) other non recurring income and expense items; and represents the profit attributable to the parent after non-controlling interests.

[ii] NPS®, Net Promoter® & Net Promoter® Score are registered trademarks of Satmetrix Systems, Inc., Bain & Company and Fred Reichheld

[iii] The Evolved Group Australian B2B NPS® Industry Benchmarks

[iv] Sample population size 1,162 clients

[v] Total impacted by rounding

[vi] Total impacted by rounding