

# KP+GH

# INVESTOR FAQs

ASX: KPG

---

**PRESENTED BY**

**Brett Kelly** CEO and Executive Chairman

**Justin Sweeting** CFO

**Kenneth Ko** Group Finance Manager

1 September 2020

The CEO, Brett Kelly, has approved the release of this document to the market

**Kelly Partners Group Holdings Limited**

[kellypartnersgroup.com.au](http://kellypartnersgroup.com.au)






Level 8, 32 Walker Street, North Sydney NSW 2060, Australia

# AGENDA

1. Five Choices for Deploying Capital
2. Per Share Recurring Revenue, Owner Earnings and Earnings
3. Share Buyback Update
4. Seasonality in Half Year Revenues
5. Non Controlling Interest versus Shareholder Distributions
6. Group Gearing and Capital Structure
7. Attributable Debt Structure
8. Property Strategy

# Five Choices for Deploying Capital

## Lessons from The Outsiders

Capital allocation is a CEO's most important job.			Dashboard		
			FY18	FY19	FY20
1	<b>Investing In Existing Operations</b> KPG has made significant investments to build its central management services team.		<b>\$0.4m</b> Additional investments from parent	<b>\$0.7m</b> Additional investments from parent	<b>\$1.6m</b> Additional investments from parent
2	<b>Acquire Other Businesses</b> KPG is not required to invest capital to make acquisitions		- Acquisitions	<b>4</b> Acquisitions	<b>2</b> Acquisitions
3	<b>Issue Dividends</b> KPG has grown its dividends at 10%p.a. since IPO and targets a 50-70% through-the-cycle Dividend Payout Ratio.		<b>4.00c</b> DPS (Payout Ratio: 41.5%)	<b>4.40c</b> DPS (Payout Ratio: 82.8%)	<b>5.39c</b> DPS (Payout Ratio: 61.0%)
4	<b>Pay Down Debt<sup>^</sup></b> KPG targets a gearing ratio of 1.0x - 1.50x with an allowance to spike to 2.00x for significant or multiple acquisitions.		<b>\$2.4m</b> Debt Repaid Gearing: 0.79x	<b>\$3.2m</b> Debt Repaid Gearing: 1.35x	<b>\$3.4m*</b> Debt Repaid Gearing: 1.11x
5	<b>Repurchase Stock</b> KPG intends to build per-share intrinsic value by repurchasing KPG Shares when they are available at a meaningful discount from intrinsic value.		<b>45,497,181</b> Outstanding shares - Bought Back	<b>45,495,000</b> Outstanding shares <b>2,181</b> Bought Back	<b>45,400,000</b> Outstanding Shares <b>95,000</b> Bought Back

<sup>^</sup> Only includes scheduled debt repayments and excludes voluntary debt repayments

\* Cash from Financing Activities included \$5.8m in repayment of borrowings, which includes \$2.4 in debt restructures (involving equivalent amounts of new debt advanced). Excluding the debt restructures, the debt repaid was \$3.4m

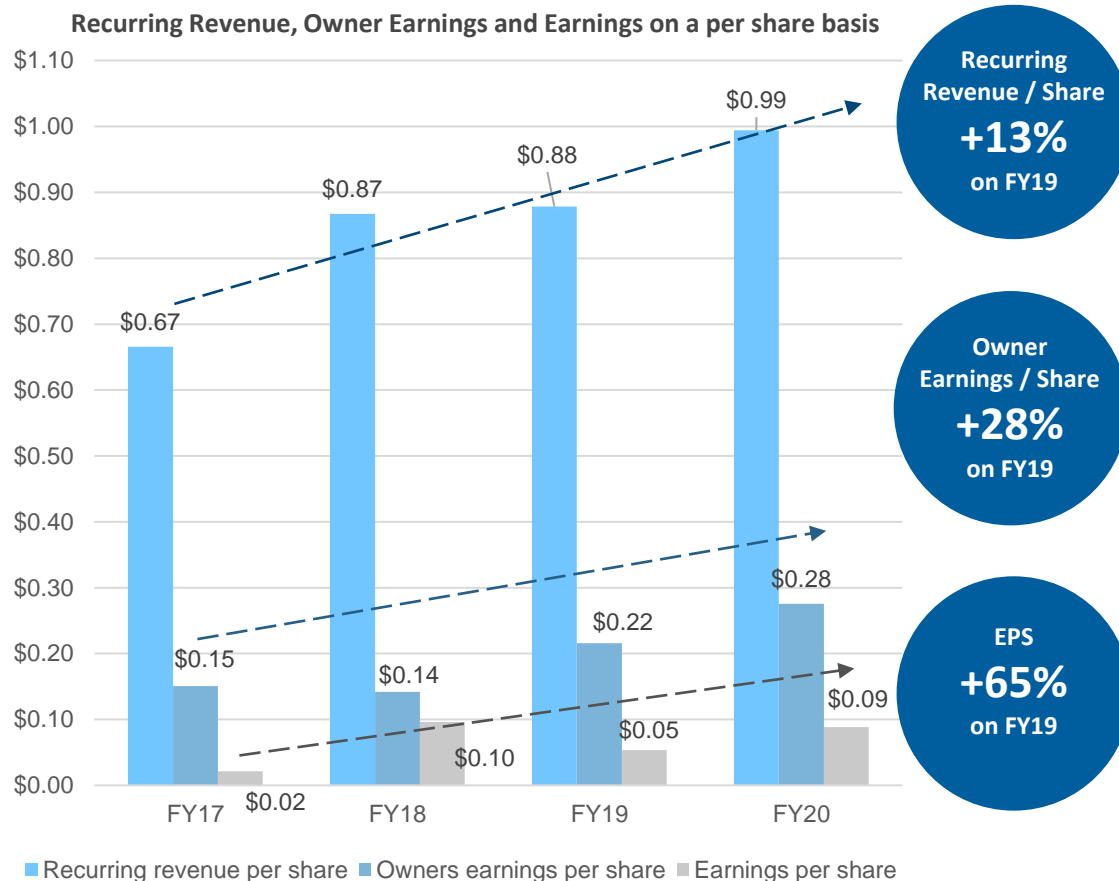
# Per Share Recurring Revenue, Owner Earnings and EPS

The Group has consistently grown its through-the-cycle Recurring Revenue, Owner Earnings, and Earnings on a per share basis.

- The Group uses Owner Earnings\* to measure cash flow available to the firm which is then available for the five choices of Capital Allocation Deployment.
- EPS is a measure of profit attributable to shareholders of the parent entity, whilst Recurring Revenue per share and Owners Earnings per share is a measure of income to the firm and is on a group consolidated basis.

***“What counts in the long run is the increase in per share value, not overall growth or size. Cash flow, not reported earnings, is what determines long term value.”***

**- William Thorndike**



\* Owner Earnings is an after-tax measure which takes into account change in working capital requirements and the deduction of maintenance capex.

\*\* FY17 Earnings Per Share is shown after adding back IPO costs

# Share Buyback Update

197,181 shares repurchased since IPO, with no new shares issued.

- The Group intends to buyback a further 300,000 shares
- **The Group intends to extend its current buyback programme** for a further 12 months. The current buyback finishes on 25 Sep 2020.
- In line with KPG's strategy KPG intends to build per-share intrinsic value by repurchasing KPG Shares when they are available at a meaningful discount from intrinsic value.
- Since IPO, KPG has repurchased 197,181 shares at a c. 14.5% discount to the current price \$1.25\*
- Post FY20 results release on 21 August 2020, senior management have purchased ~102,000 shares.

***“KPG’s business model to acquire accounting firms does not require the new issuance of shares”***

\*Based on closing price at Friday 28 August 2020 of \$1.25

Date	Closing Shares	Shares Repurchased
Open at IPO**	45,497,181	
30 Jun 18	45,497,181	-
30 Jun 19	45,495,000	(2,181)
30 Jun 20	45,400,000	(95,000)
27 Aug 20	45,300,000	(100,000)
<b>Total Outstanding</b>	<b>45,300,000</b>	<b>(197,181)</b>
<b>Target</b>	<b>45,000,000</b>	<b>(300,000)</b>
Share Purchase VWAP vs Current Price		
Total purchase costs		\$210,848.30
VWAP of share repurchases Since IPO:		\$1.07
Closing price on Friday 28 Aug 2020		\$1.25
Discount to closing price		14.5%

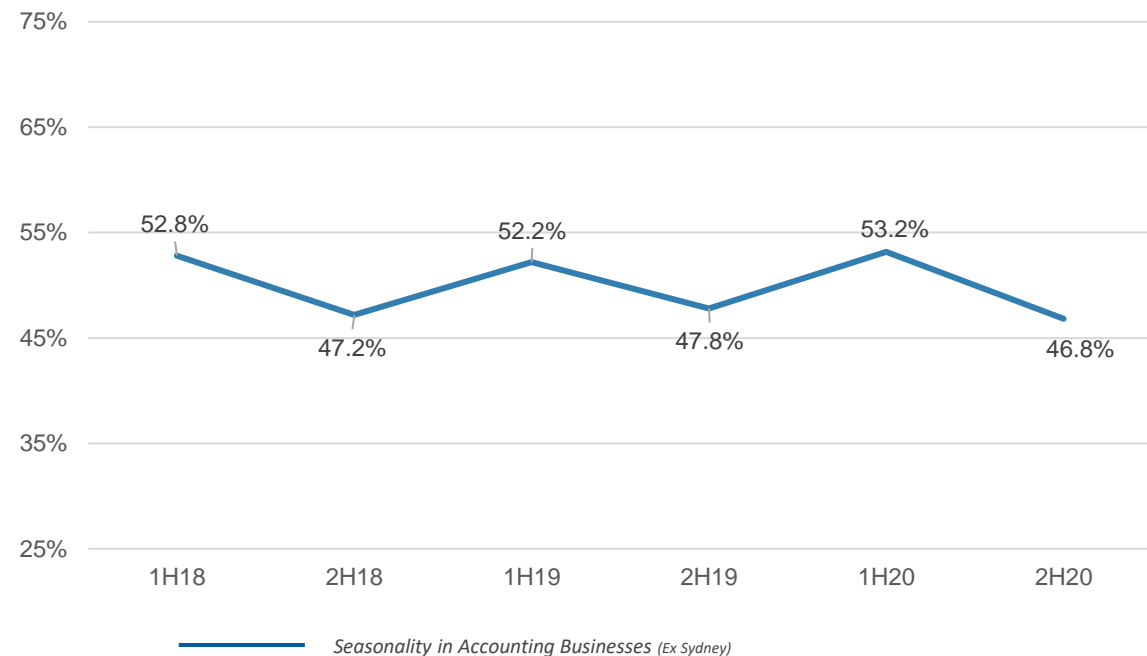
\*\*Inclusive of shares issued to employees as part of the IPO transaction.

# Seasonality in Half Year Revenues ~ 53% / 47%

Seasonality driven by tax calendar work aligned to the 30 June financial year end

- Seasonality in the accounting businesses is approximately **1H: 53% / 2H: 47%** since IPO, equating to a 6% (or c. \$2.3m swing) down swing in 2H20.
- Seasonality is predominantly due to **timing of tax work related to 30 June Year end**, with most work typically completed in the first 9 months of the year.
- The Group also engages in a small amount of **audit work of which 90% is completed by the 31 October lodgement deadline**. Audit work represents less than 2.0% of group revenues.

Seasonality in accounting business  
(excludes acquisitions)



# Non Controlling Interest versus Shareholder Distributions

NCI distributions 1) include a capital distribution component, 2) are before tax, and 3) represent c. 100% of NCI profit. Shareholder dividends 1) do not show the capital distributions component (which are eliminated under consolidation accounting), 2) are after tax and 3) are paid in line with the group's sustainable dividend policy.

- Distributions to Non Controlling Interests (NCI) were \$8.1m in FY20. Dividends to shareholders of the parent entity were \$2.4m. These two distributions amounts are not like for like and cannot be directly compared. The table highlights the key reasons for the difference in these amounts:
- Total distributions to NCI of \$8.1m includes \$2.6m in capital distributions. The Parent entity also received a \$2.6m capital distribution, which it applied wholly to debt reduction (this is what primarily accounts for the \$2.6m increase in debt reduction in FY20 of \$5.8m (FY19: 3.2m)). To compare to net profit after tax, the capital distribution component has been adjusted out. The distributions in relation to operating cashflows were \$5.5m
- Distributions to NCI are shown on a before tax basis\*. For illustrative purposes and to compare to Net Profit *After Tax* (attributable to the parent), these amounts have been tax affected at an *assumed* rate of 30%.
- Adjusting for the above, the comparable normalised tax effected distributions from operations are \$3.9m. This compares to Reported NPAT of \$4.0m attributable to shareholders and is reflective of the . 51/49 split of the listed entity and NCI.
- Distributions to NCI represent 100% of their profit (as NCI's operate under partnership structures), whereas dividends to shareholders are in line with the groups sustainable dividend policy. In FY20 the dividend was \$2.4m representing a 59.8% dividend payout ratio.

Side by Side Comparison	\$	%
NPAT attributable to shareholders of the parent	4.0	51.0%
Normalised tax effected distributions from operations	3.9	49.0%
<b>Total</b>	<b>7.9</b>	<b>100.0%</b>

Normalised tax effected distributions from operations	\$m
<b>NCI Distributions</b>	<b>8.1</b>
Adjustment for <i>Capital</i> Distributions	-2.6
<b>Normalised distributions <i>from operations</i></b>	<b>5.5</b>
Adjustment for tax effect @ 30%	-1.7
<b>Normalised tax effected distributions from operations</b>	<b>3.9</b>

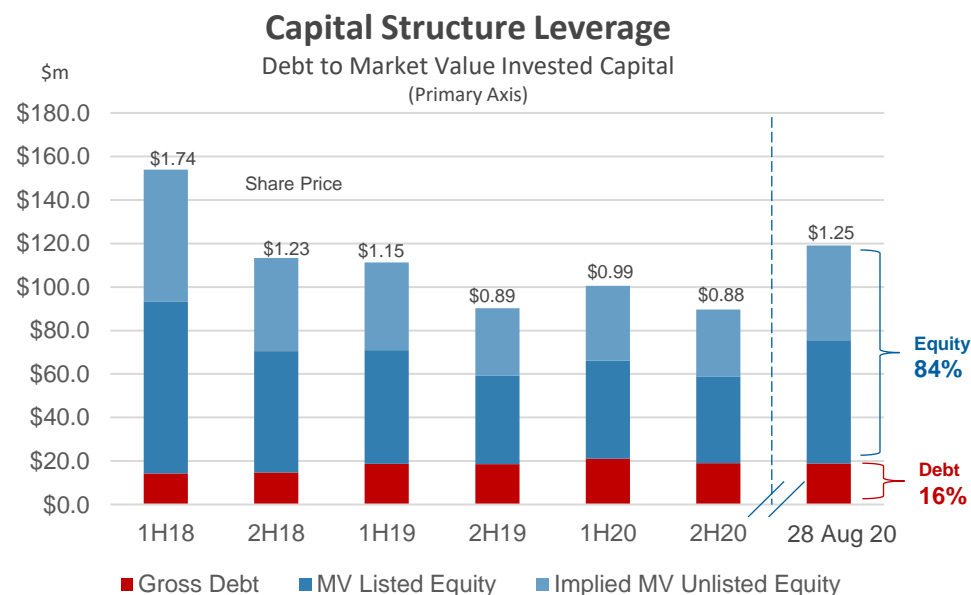
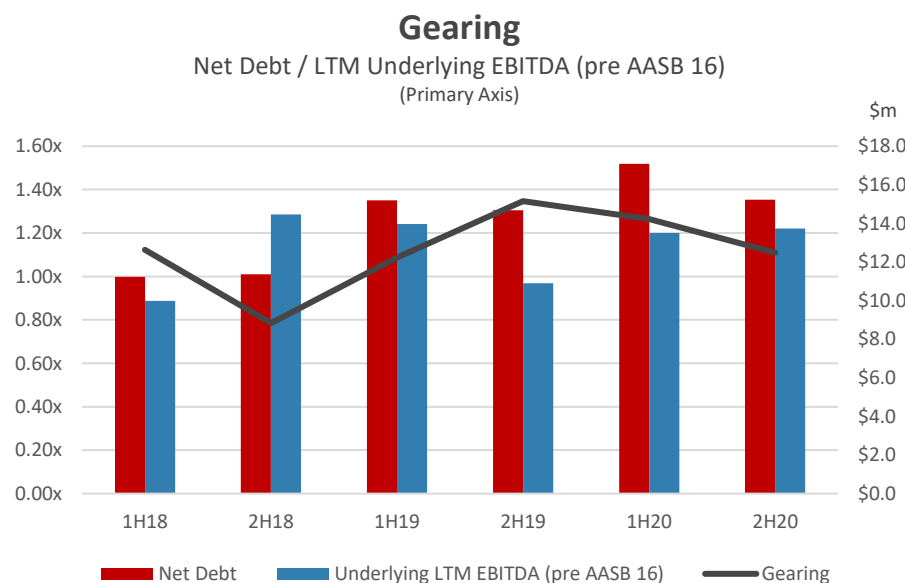
Distributions to shareholders of the parent entity	\$m
<b>NPAT attributable to shareholders of the parent</b>	<b>4.0</b>
<b>Dividend Paid</b>	<b>2.4</b>
<i>Dividend Payout Ratio</i>	60%

\* This is the case for all the operating businesses except one business which does not operate under a partnership structure.

# Group Gearing and Capital Structure

## Declining and low gearing (1.1x) and low steady leverage (27% Debt / MV Equity)

- The Group uses Net Debt / Underlying EBITDA (pre AASB 16) as its primary measure of group gearing, shown below (left hand chart). This is reflective of the major banks' key credit metric for cashflow lending including lending to professional service firms.
- The Group's gearing has dropped significantly over the last financial year from 1.35x (FY19) to 1.11x (FY20). This is primarily due to earnings increasing whilst maintaining relatively flat net debt levels (year on year).
- The Group maintains scheduled debt reductions of c. \$3.5m p.a., and in the absence of acquisitions, gearing would be expected to decline by ~0.25x p.a.
- The Group also monitors Debt / Market Value Invested Capital (MVIC) and Debt to Equity measures. The Group's capital structure includes debt, listed equity and unlisted equity, shown below (right hand chart). The Group calculates MVIC as the sum of the 1) the market value (MV) of its listed equity, 2) The implied MV of the unlisted equity (representing c. 49% of the consolidated balance sheet) after accounting for illiquidity and 3) Gross Debt. Under these measures, the Group's Debt to MVIC is c. 16% and the Group's Debt to MV Equity is c. 19% (as at 28 Aug June 20).





# Attributable Debt Structure

## The Parent entities attributable debt is only ~25.3% of Group Debt\*

- **What is Attributable Debt:** Under the Group's cashflow waterfall, EBITDA is 1) first used to repay Business Attributable debt, 2) secondly distributed to the partners according to their economic interests, out of which those partners services their respective Attributable debt; 3) and the remaining cashflow is free cash. As and when the parent's Attributable acquisition debt tranches (which sit within the operating businesses) are repaid in full, the free cashflow up to the parent is expected to increase as servicing costs cease.
- **The Group's Net Debt (Excluding Property Debt) is \$15.0m** as at 26 August 2020.
- **Parent's attributable debt of \$4.3m** (25.3% of total debt (ex property debt)) includes \$3.1m on its balance sheet and \$2.2m on subsidiary balance sheets. The \$3.1m on balance sheet includes \$1.9m in its working capital revolver, \$0.6m in fit-out and equipment finance, and \$0.7 in amortising debt related to IPO costs. The \$2.2m on subsidiary balance sheets includes acquisition attributable to the parent in relation to the Sydney, Melbourne, Southern Highlands, South West Sydney and Wollongong businesses.
- **Partner loans are \$4.2m**, (24.8% of total debt (ex property debt)) and relates to partner buy-in funding.
- **Business debts total \$7.3m (43.6% of total debt ex property debt)** and includes \$2.7m in drawn overdrafts, \$3.8m in acquisition facilities and \$0.8 in fit-out and equipment finance facilities.

	Attributable Debt by Balance Sheet						Parent Look Through		
	Parent's Balance Sheet	Operating Business' Balance Sheets				Total	Parent Look Through		
Attributable to:	Parent	Parent	Op Partners	Business	PropCo	Total	Parent	Op. Business	Total
Working Capital Debt	\$1.9	-	-	\$2.7	-	\$4.6	\$1.9	-	\$1.9
Acquisition Term Debt	-	\$2.2	\$4.2	\$3.8	-	\$10.1	-	\$2.2	\$2.2
Fitout & Equipment Finance	\$0.6	-	-	\$0.8	-	\$1.4	\$0.6	-	\$0.2
IPO related amortising debt	\$0.7	-	-	-	-	\$0.7	\$0.7	-	-
<b>Total Debt (Ex Property Debt)</b>	<b>\$3.1</b>	<b>\$2.2</b>	<b>\$4.2</b>	<b>\$7.3</b>	<b>-</b>	<b>\$16.8</b>	<b>\$3.1</b>	<b>\$2.2</b>	<b>\$4.3</b>
% of Debt	18.5%	13.1%	24.8%	43.6%	0.0%	100%	18.5%	13.1%	25.3%
Less Cash	-	-	-	-	-	-\$1.8	-	-	-
<b>Net Debt (Ex Property Debt)</b>						<b>\$15.0</b>			
Property Debt	-	-	-	-	\$1.3	\$1.3	-	-	-
<b>Net Debt</b>						<b>\$16.3</b>			

\*This is excluding property debt which the Group intends to clear via sale of the properties in the next 6 – 18 months. Including the property debt the parent entities attributable debt is only ~23.5%

## Property Strategy

- The Group seeks that to make its Partners, Clients and People #BetterOff
- In order to build long term tenure and wealth for its partners, the Group has assisted certain partners in acquiring their office buildings. This has been done via Property Unit Trust structures (PropCo's) which the Group has participated in when those office locations have become available on market.
- Having secured office ownership for its partners, the Group is now looking to sell down its interests in the PropCo's and return that capital back to the Group.
- The Group seeks to maximise its long term ROE. The long term ROE on the Group's accounting businesses exceeds the long term ROE on the PropCo's.
- The short term capital deployment to PropCo structures is expected to assist with long term partner tenure, wealth creation and making its partners #BetterOff. The equity deployment to property is only a fraction of the equity deployed to the Accounting businesses and its dilutive effect on Group ROE's is not material on overall Group RoE of 49%.

	Accounting Businesses	Property Businesses	K+P Group*
<b>FY20 (m)</b>			
<b>NPATA</b>	<b>\$9.16</b>	<b>\$0.05</b>	<b>\$11.22</b>
<i>% of Subtotal</i>	<i>81.6%</i>	<i>0.5%</i>	<i>100.0%</i>
<b>Equity</b>	<b>\$19.22</b>	<b>\$0.66</b>	<b>\$22.92</b>
<i>% of Subtotal</i>	<i>83.8%</i>	<i>2.9%</i>	<i>100.0%</i>
<b>ROE</b>	<b>47.7%</b>	<b>7.9%</b>	<b>49.0%</b>
<b>FY19 (m)</b>			
<b>NPATA</b>	<b>\$7.26</b>	<b>\$0.02</b>	<b>\$7.89</b>
<i>% of Subtotal</i>	<i>92.1%</i>	<i>0.3%</i>	<i>100.0%</i>
<b>Equity</b>	<b>\$23.46</b>	<b>\$0.43</b>	<b>\$24.13</b>
<i>% of Subtotal</i>	<i>97.2%</i>	<i>1.8%</i>	<i>100.0%</i>
<b>ROE</b>	<b>30.9%</b>	<b>4.6%</b>	<b>32.7%</b>

\* Per Financial Statements which also includes complementary businesses and is after consolidation accounting inclusive of inter-group eliminations

# Disclaimer

---

## SUMMARY INFORMATION

This document has been prepared by Kelly Partners Group Holdings Limited ACN 124 908 363 (Company) of Level 8, 32 Walker Street, North Sydney NSW 2060. This document contains information in a summary form and general background information about the Company's activities current as at the date of the document. It is to be read in conjunction with the Company's other disclosure announcement filed with the Australian Securities Exchange (available at [www.asx.com.au](http://www.asx.com.au)). This document is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor.

## TERMINOLOGY

Certain non-IFRS financial information has been included with this document to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. The Company uses these measures to assess the performance of the business and believes that the information is useful to investors. Non-IFRS information including Underlying, Attributed and Pro forma NPAT, NPATA, EBITDA, and EPS have not been subject to review by the auditors.

## NO RELIANCE

To the maximum extent permitted by law, the Company, its subsidiaries and associates and their respective directors, employees and agents disclaim all liability for any direct or indirect loss which may be suffered by any recipient through use of or reliance on anything contained in or omitted from this document. No recommendation is made as to how investors should make an investment decision. Investors must rely on their own examination of The Company, including the merits and risks involved. Investors should consult with their own professional advisors in connection with any acquisition of securities.

The information in this document remains subject to change without notice. The Company assumes no obligation to provide any recipient of this document with any access to any additional information or to notify any recipient or any other person of any other matter arising or coming to its notice after the date of this document.

## FORWARD LOOKING STATEMENTS

This document contains certain "forward-looking" statements. Forward-looking statements are generally identifiable by the words "anticipate", "believe", "expect", "projections", "guidance", "forecast", "estimate", "likely", "intend", "should", "could", "may", "will", "target", "plan" and other similar expressions. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. While due care and attention has been used in the preparation of forecast information, forward looking

statements, opinion and estimates are based on assumptions and contingencies which involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Company. Neither the Company, its directors, officers or agent gives any representation, warranty, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur and actual results may differ materially from those expressed or implied in such statements. To the fullest extent permitted by law, the Company disclaims any obligation or undertaking to release any public update or revisions to the information to reflect any changes in expectations or assumptions. These statements are general guides only and should not be relied upon as an indication or guarantee of future performance. Past performance are not indicators of future performance.

## NOT AN OFFER

This document does not constitute an offer, invitation, solicitation, recommendation, advice or recommendation with respect to issue, purchase, or sale of any shares or other financial products in the Company in any jurisdiction.

## CONFIDENTIALITY

By accepting this document, you agree to maintain absolute confidentiality regarding the information contained herein. The information is given to you solely for your own use and this document cannot be copied, reproduced, redistributed or passed on, directly or indirectly, in whole or in part, for any purpose without the prior written permission of the Company. The distribution of this document may be restricted by law and persons in possession of this document should inform themselves and observe any such restrictions.

## AUTHORISATION STATEMENT

Brett Kelly, Managing Director and Chair of Kelly Partner Group Holdings Limited, has approved the release of this document to the market.

Thank you