KP+GH

KELLY PARTNERS GROUP HOLDINGS LIMITED

ASX ANNOUNCEMENT

Friday 21 August 2020

KPG delivers 64.8% increase in Reported NPAT to $4.0m
Underlying attributed NPATA[1] up 25.3% to $4.0m
Quarterly dividends expected to grow by 10%

FY20 Highlights

- Group revenue of $46.4m (+$6.4m, up 16.0%) driven by organic growth of $3.8m (9.4% of the 16.0% growth), new acquisition revenue of $2.3m (5.7% of the 16.0% growth) and $0.3m in FY19 acquisition run rate revenue (0.8% of the 16.0% growth).
- Underlying EBITDA (pre-AASB 16) up 26.1% to $13.7m on a like for like basis. Underlying EBITDA margin (pre-AASB16) expanded to 29.6% (FY19: 27.2%) with revenue growing faster than expenses.
- Cashflow from Operations (pre-AASB 16) up 27.0% to $12.7m[2] with 98% cashflow conversion[3].
- Underlying NPATA Earnings Per Share (EPS) of 8.8 cents per share, up 25.6%.
- Dividends per Share (DPS) of 5.39 cents per share with ordinary DPS growing 10% on FY19.

Financial Highlights ($m)	KPGH & Controlled Entities			KPGH Parent Only		
	FY19	FY20	Change %	FY19	FY20	Change %
Revenue	**$40.0**	**$46.4**	**16.0%**			
Underlying EBITDA (incl. AASB16)		$16.2				
Underlying NPATA	**$8.8**	**$10.3**	**17.2%**	**$3.2**	**$4.0**	**25.3%**
Margin (%)	*22.1%*	*22.3%*				
Statutory NPAT	**$7.1**	**$10.4**	**44.9%**	**$2.4**	**$4.0**	**64.8%**
Earnings per share (cents)[4]				7.02c	8.81c	25.6%
Dividends per share (cents)				4.40	5.39	
Dividend Payout Ratio (%)				*82.2%*	*61.0%*	
Return on Equity	32.7%	49.0%		18.8%	28.1%	
Return on Invested Capital	22.5%	32.2%		21.8%	29.2%	
Owners' Earnings[5]	$9.7	$12.5	29.4%			

The FY20 results reflect the adoption of the accounting standard AASB16. Financial results for FY19 do not include AASB16 and the FY20 transition impact has been taken through retained earnings (as permitted). The table below shows Underlying EBITDA (pre-AASB16) for comparison purposes.

Pre-AASB16	FY19	FY20	Change %
Underlying EBITDA (pre-AASB16)	**$10.9**	**$13.7**	**26.1%**
Margin (%)	*27.2%*	*29.6%*	

[1] Underlying Attributable NPATA is adjusted for 1) amortisation of customer relationship intangible assets acquired; 2) acquisition and integration costs; 3) government grants received for COVID-19; and represents the profit attributable to the parent after non-controlling interests.

[2] Pre-adoption of new accounting standard AASB16.

[3] Cashflow Conversion is calculated as Operating Cashflow (before finance costs and cash tax paid) divided by Statutory EBITDA.

[4] EPS is calculated as Underlying NPATA divided by shares outstanding.

[5] Owners Earnings is calculated as Cash from Operations less leasing expense and maintenance capex.

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COVID-19 Response

- ***Annuity Style Income***: Annuity style activities represent 99% of revenue[6]. The Group has a large diversified client base with 8,000+ client groups across 15 office locations in NSW and Victoria. The Group's top 20 clients make up 10% of revenue. Only 10% of the Group's clients are receiving JobKeeper payments. The Group has not experienced a slowdown in collections and lock-up has reduced to 54 days (FY19: 70).
- ***Team:*** Over c.90% of the team working remotely with no notable interruption to client service. Existing systems have been resilient to large-scale remote working, reflecting investment in technology since IPO.
- ***Cost Management:*** Executive salaries reduced by 20% for April, May and June. Ongoing operating expenses were reduced and the dividend payout ratio fell to 61.0% (FY19: 82.2%).
- ***Capital & Liquidity***: The Group increased its cash and unused facilities by 71% to $12.5m (FY19: $7.3m) to provide COVID cushioning and up to $31m in acquisition capability. The Group's balance sheet remains conservatively geared at 1.11x[7] EBITDA (FY19: 1.35x) and there are no term facilities due for refinance in FY21.

Financial Performance

- ***Acquisition Revenue of $2.6m (contributing 6.6% of the 16.0% revenue growth):*** The Group acquired two accounting businesses located in Melbourne and Glenbrook (Blue Mountains) during the financial year. Completion for both businesses occurred on 1 November 2019 and the acquired entities have contributed eight months in year revenue of $2.3m, with full year run rate expected to be $3.2m - $3.9m. There was a further $0.3m in revenue growth from the four acquisitions completed in FY19. Both businesses are now fully integrated.
- ***Organic Revenue growth contributed $3.8m (or 9.4% of the 16.0% revenue growth):*** This and was underpinned by volume and price increases across the network. In FY20 Group partner numbers increased 10% to 44 (FY19: 40) including four internal promotions and one new partner via acquisitions. One partner exited the business following his successful election to the Federal Parliament.
- ***Group Underlying EBITDA (pre AASB 16) of $13.7m (+$2.8m, up 26.1%)***: EBITDA margin lifted to 29.6% (FY19: 27.2%) with revenue growth outpacing expenses. Employment and Related Expenses of $21.8m (FY19: $19.6m) are the Group's largest expense and whilst increasing 11.3%, fell 2.00 percentage points to 46.9% of Revenue (FY19: 48.9%). The group also invested an additional $0.4m into its IT infrastructure and security.
- ***Underlying NPATA attributable to Shareholders of $4.0m (+$0.8m, up 25.3%)*** is before one-off government cash grants in relation to COVID-19 of $0.6m as well as acquisition related expenses and other non-cash items related to changes in accounting standards. Adjusting out these non-recurring items, Reported NPATA attributable to Shareholders was $4.5m.
- ***Cashflow from Operations of $12.7m (pre-AASB 16)[8] was up 27.0% on FY19*** with a cash conversion ratio of 98%. This was achieved on revenue growth of 16.0%, reflecting the ongoing and disciplined approach to working capital management, and the strong underlying cash flow generation of the Group.

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[6] Based on FY20 revenue excluding the Corporate Advisory business which is not material and ceased trading after balance date.

[7] Gearing is calculated as Net Debt / Underlying EBITDA (Pre AASB 16).

[8] Reported Cashflow from Operations was $14.6m (after AASB16)

Getting to Scale

The parent entity has since the IPO continued to invest significantly in growth in order to further develop the capabilities of the central services team and for the business to be positioned for long term growth as well as to grow its competitive advantage. These investments for growth have exceeded the central Services Fee and IP Fee income that the Company receives from its operating businesses as shown in the table below. With these investments in place, the Company believes it is now well established and positioned to scale further. Management intend to limit the ongoing additional investment spend to within the amount of fees received by 30 June 2021.

	FY18	FY19	FY20
Additional investments	$371,913	$742,439	$1,630,905

Dividends Paid in FY20

During the year ended 30 June 2020, KPG declared four fully-franked ordinary dividends totalling 4.84cps, a 10% growth on prior year. The Group also paid a special dividend of 0.55cps. Since IPO in June 2017, the Group has increased ordinary quarterly dividends by 10% per annum. As at 30 June 2020, the Group holds $0.9m in franking credits and the Group intends to maintain a through-the-cycle fully franked payout ratio of 50-70%, whilst growing dividends at 10% p.a.

Dividends	FY18		FY19		FY20		FY21 Outlook	
	DPS (cps)	Total	DPS (cps)	Total	DPS (cps)	Total	DPS (cps)	Total*
Ordinary Dividends	4.00	$1,819,888	4.40	$2,001,876	4.84	$2,197,757	5.32	$2,417,096
Growth %			*10%*		*10%*		*10%*	
Special Dividends					0.55	$249,881		
Total	**4.00**	$1,819,888	**4.40**	$2,001,876	**5.39**	$2,447,638	**5.32**	$2,417,096
Payout Ratio %	*41.5%*		*82.2%*		*61.0%*			

**FY21 total may vary subject to share buy-backs*

Commenting on the FY20 performance of the Group, Executive Chairman & CEO Brett Kelly said:

“Kelly Partners is a strongly defensive annuity style revenue business growing at c.15% p.a. since IPO three years ago. Our strategy is to be focussed on tax and accounting services to private business owners concentrated in Sydney and with an addressable market in excess of $12.0b ensures that we feel confident that there is still very substantial growth ahead.

“In FY21 we expect to substantially grow our earnings through full year realisation of cost reductions achieved during COVID-19 combined with operational leverage in the management services team. We have and continue to prepare the business for the current economic environment and the business remains well positioned and well capitalised over the medium term to execute its Five Year Growth Plan.”

Outlook

The Company will maintain its focus on organic growth, network expansion and offering new services.

During FY21 the Company aims to:

- Grow EBITDA margins (pre-AASB 16) to 32.5% in each individual accounting practice;
- Continue driving market share gains, underpinned by strong brand presence and growing market penetration;
- Pursue acquisition opportunities; and
- Deliver further operational efficiencies at the partnership level and across the Central Services team.

The Group expects FY21 Underlying NPATA (attributable to Shareholders) to increase in FY21, and to increase its dividends by 10% to 5.32 cents per share (FY20: 4.84 cents per share). This is based on no material adverse impacts emerging as a result of COVID-19

Post-Results Conference Call

Kelly+Partners Group will be holding a FY20 results' briefing conference call at 10:00am (AEDT) today, followed by a Q&A session. To join the call, please dial 1300 264 803 (Australia Toll Free) or +613 8687 0650 (International).

For more information, please contact:

Brett Kelly

Executive Chairman and CEO

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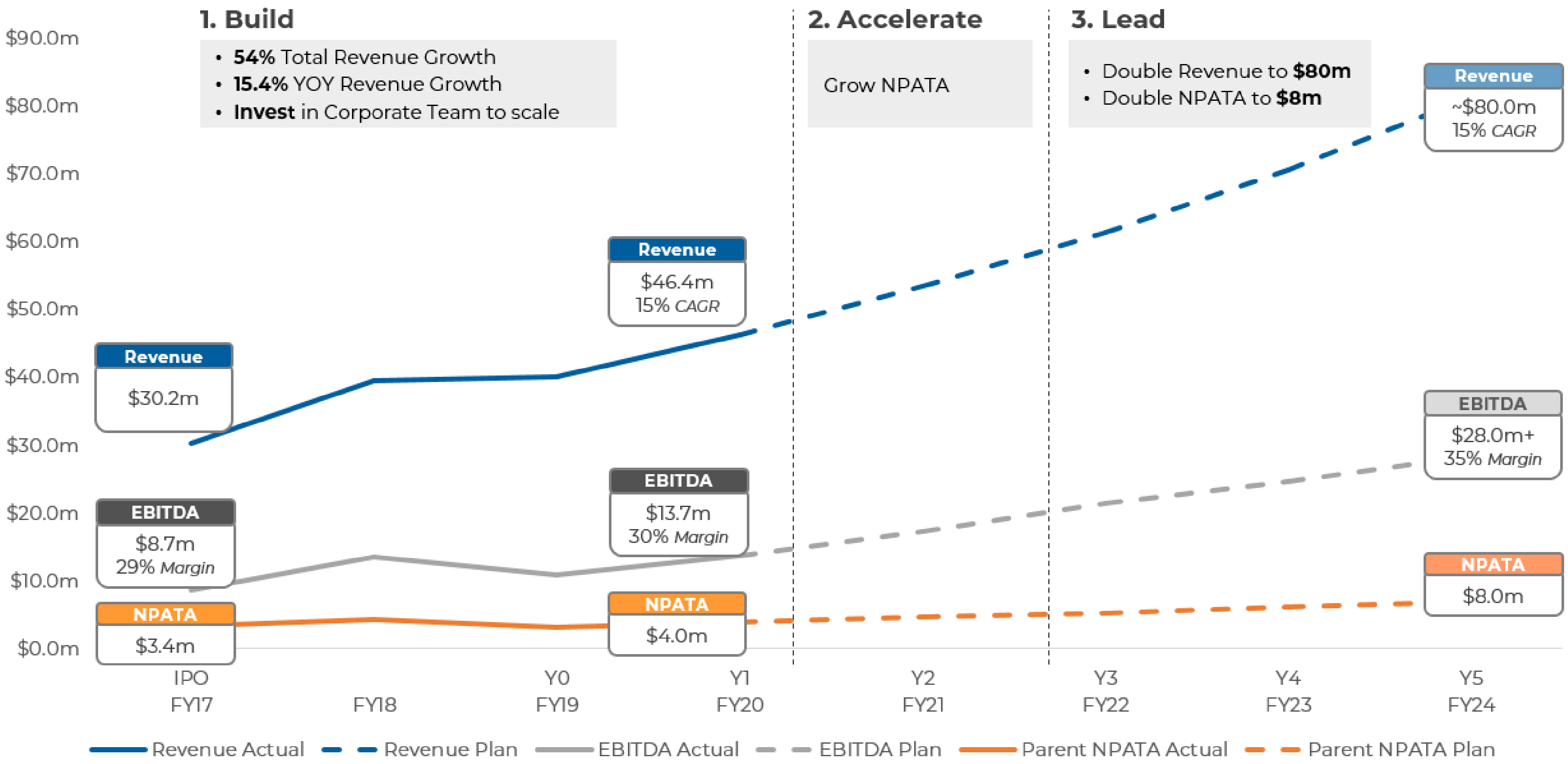
The Board of Directors of Kelly Partners Group Holdings Limited, has approved the release of this document to the market.

Build, accelerate and lead

Double revenue to $80m+ by FY24



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KELLY PARTNERS GROUP HOLDINGS LIMITED

Kelly+Partners – Current Office Locations

About Kelly+Partners

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 22 operating businesses across 15 locations in Greater Sydney, Melbourne and Hong Kong. In total, the team consists of more than 250 people, including 44 partners, who service over 8,000 SME clients. Our holding company, Kelly Partners Group Holdings, was successfully listed on ASX on 21 June 2017. Over the past 14 years, Kelly+Partners has undertaken 37 individual transactions in order to build the current accounting network. This includes the transformation of 22 external firms, and the launch of 15 greenfield businesses. Our ownership structure and operating model is unique in 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 Kelly+Partners to help solve many of the issues currently facing both the accounting sector and our SME clients.

For more information, please contact:

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