

Quality Shareholders #2

Dear Valued Shareholder,

Since writing the first shareholder email earlier this month, we have received many positive responses from you. We have also seen an increase in interest from investors wishing to become owners of our business. Such examples of positive emails are listed below:

- *"Thanks for your email. Hope you have read Warren's biography The Snowball. I follow his advice too... I do subscribe to your thoughts on long term shareholders and hope to share in your growth. We manage our own investments, and... we are well aware of your track record. Long may it continue."*
- *"Thanks Brett, great to hear from you and great initiative. I appreciate being able to get in early as a shareholder and will continue to hold my shares and be an advocate for the business where I can. Wishing you all the best."*
- *"It's emails like this that only reaffirms our decision to buy shares in Kelly+Partners. My wife and I have been impressed with your communications and business results to date and we can assure you that we aim to hold our shares for an indefinitely long period of time. We don't, and won't, trade your shares for any perceived short-term gain, and we definitely see ourselves as owners and partners (via our SMSF). This isn't just the Warren Buffett way, but also reflects the ethos at Markel in the US (another shareholder friendly company that treats its owners as partners). Needless to say, but I'll say it anyway, we're happy to back you and your team for the long haul."*
- *"Hi Brett, I'm a shareholder in Melbourne, big fan of Warren and Charlie, and I've got 2 of your books. I don't know much about your business model, but I don't need to – your approach speaks for itself."*

We continue to focus on cultivating Quality Shareholders, and to that end, we want to list out in this letter our previously released communications to ensure that you have access to key information on our business.

Communication for Quality Shareholders

We have made changes to our homepage at www.kellypartnersgroup.com.au to list out all the key information on Kelly Partners, as per below:

1. Owner's Manual

2. Annual Letter

- [2019](#)
- [2020](#)

3. Periodic Q&A

- [Sep-20](#)
- [Presentation to Morgans](#) (released 30 April 2021)

4. Annual Meeting

Our 2021 Annual General Meeting will be held on **Friday, 24 September 2021**, at the Sydney Town Hall. We intend to structure the AGM similar to Berkshire Hathaway AGMs. We will have an extended Q&A session, trade booths to showcase Kelly Partners services, as well as the products and services of our valued clients. We will send out invitations to you closer to the date and we look forward to seeing you in person.

We also highlight to you below the practices and policies we are focused on in attracting Quality Shareholders such as yourselves:

Practice & Policies for Quality Shareholders

1. Capital Allocation

Our concepts on capital allocation are derived from Will Thorndike's exceptional book [The](#)

[Outsiders](#) and we recognise that top performing CEOs are "masters of capital allocation." Our focus is on deploying the cashflows we raise (from existing businesses, debt issuance or equity issuance of which we have little appetite for) in to the five choices available (investing in existing businesses, acquiring other businesses, issuing dividends, paying down debt, or repurchasing our shares) to maximise the per share return to you. We like to refer to Tom Murphy's quote "The goal is not to have the longest train, but to arrive at the station first using the least fuel."

2. ESG

The mission of Kelly+Partners is "to help the people, businesses and communities we serve be better off." To that end, we began a year long process in November 2019 to become certified as a B Corp, meeting high standards of verified social and environmental performance, publish transparency and legal accountability. We became officially certified in February 2021 and are the only ASX listed accounting group to be certified as a B Corp. Further details on our B Corp certification are included in our [ASX release](#).

3. Purpose Driven Governance

Companies can become global leaders without losing the values that helped them succeed.

Most large, successful companies began as insurgents - fast, agile and adaptable. They focused on customers. They hated complexity. But too many companies accept a troubling trade-off. They achieve scale but lose their Founder's Mentality - the very core strengths and values that helped them succeed and grow. Our research shows that of the one in nine companies that achieve a decade or more of sustained, profitable growth, have preserved - or restored - their Founder's Mentality. To gain a deeper understanding on this concept, I highly recommend reading the book [Founder's Mentality](#) by Chris Zook & James Allen.

At KPG we established the business to help private business owners be better off because they provide more than 70% of all employment in Australia. We believe that decent employment is critical to people's ability to lead a meaningful life.

As a result of this purpose to help the employment providers our business has been developed with clear values, a clear purpose, a specific strategy captured and executed in a proprietary structure invented and perfected by KPG.

We want to keep our values that drive our purpose to make a difference. [Click here](#) to get access to our Corporate Governance documents.

4. Partnership Attitude

We would like to reiterate Warren Buffett's saying, "while our form is corporate, our attitude is partnership." As with our first shareholders letter, we see you as owners and partners of our business, not mere shareholders, and we desire to build an enduring relationship with you.

5. Long Term Metrics

Our 5 year plan is to grow the business's revenue to \$80m and parent NPATA to \$8m by FY24. We are on track to achieve this.

KPG metrics:

- Earnings per share
- Cashflow per share
- Dividends per share
- Return on Invested Capital

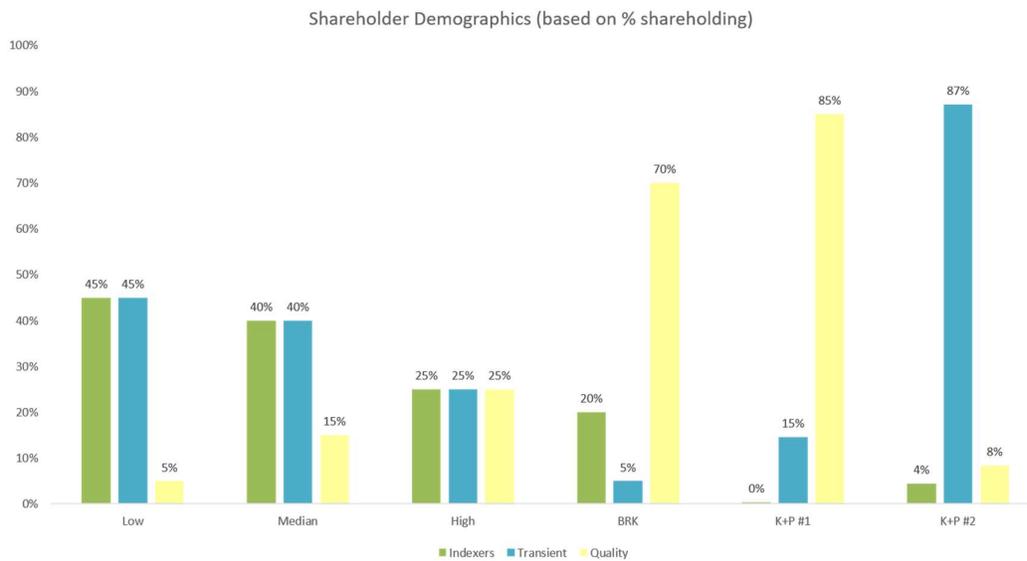
KPG Key Ideas, Terminology and Language

We include below a list of key KPG ideas, terminology and language that we will use repeatedly to emphasize long-term value building.

Key Idea / Terminology	KPG Application
Mr Market	We know that the market is a manic depressive moving from excitement to despair in rapid and seemingly mad mood swings. We believe that "the market is a voting machine in the short term and a weighing machine in the long term".
Permanent value	Accounting firms
Circle of competence	28 years in CA
Margin of Safety	A unique and proven acquisitions method and integration
Flywheel	Growing reputation and momentum of deal pipeline
Competitive Moat	The firms in each location (many qualify as top 100 firms). Reinvesting our 6.5% and 2.5% fees to grow the moat around our businesses
Network effects	Clients growing their share of wealth with K+P with latest KPIO Fund #2 as a great example
Long term	35 year plan and an understanding that the oldest firm in the industry is 185 years old
Capital allocation	True outsiders focussed on cashflow, EPS, ROE and ROIC
Quality shareholders	Cultivating Qs through regular communications espousing long term values
Intrinsic value	KPG Strategy is to maximise intrinsic value per share
Owners orientation	Due to our Founders Mentality approach our management are significant owners looking to ensure alignment between owners and management. The long term behaviour of our management has built great trust across our stakeholders. We aim to demonstrate over time that as management we are people who you can trust to invest your wealth with and who will treat your money with integrity

KPG Quality Shareholders

Recently we undertook an exercise to find out the number of our shareholders that have invested large stakes in KPG and have held our shares since IPO – i.e., Quality Shareholders. Our findings revealed 85% of our shares are held by Quality Shareholders while only 8% of the number of shareholders are Quality Shareholders. This suggests that a significant portion of our shares are held by a small group of Quality Shareholders, and that there is a large number of transient shareholders owning a small portion of our shares for the short term. We are motivated to improve our Quality Shareholders base as we believe the value in having owners that have a long term, value-oriented mindset.



Source: Low, Median, High, BRK data - Lawrence Cunningham. [2019 Value Investing Conference](#)

Total Shareholder Return (TSR)

KPG ASX Return	Issue price at IPO	FY18	FY19	FY20	FY21	Closing Share Price 4/5/2021	Total
Share Price	\$1.0000					\$2.7600	\$1.7600
Dividends per share - Ordinary		\$0.0400	\$0.0440	\$0.0484	\$0.0532		\$0.1856
Dividends per share - Special				\$0.0055			\$0.0055
Total Shareholder Return (\$)							\$1.9511
Total Shareholder Return (%)							195.1%
Total Shareholder Return - Annual (%)							32.41%

Yours sincerely,



Brett Kelly

Founder & CEO, Kelly Partners Group Holdings Limited

P.S. I recommend reading the following books to understand the ideas I built Kelly Partners on with respect to:

The Operating Business

- Why/Strategy/Structure - [Good to Great](#) by Jim Collins
- Why/Strategy/Structure - [Founders Mentality](#) by Chris Zook and James Allen
- People - [Now, Discover your Strengths](#) by Marcus Buckingham
- Process - [Scaling Up](#) by Verne Harnish
- Clients - [Raving Fans](#) by Ken Blanchard
- Financial - [The Millionaire Next Door](#) by Thomas Stanley & William Danko
- Brand - [The New Gold Standard](#) by Joseph Michelli
- Brand - [22 Immutable Laws of Marketing](#) by Al Ries & Jack Trout

KPG

- [Snowball: Warren Buffett and the Business of Life](#) by Alice Schroeder
- [The Warren Buffett Way](#) by Robert G. Hagstrom
- [The Outsiders](#) by Will Thorndike
- [Quality Shareholders: How the Best Managers Attract and Keep Them](#) by Lawrence Cunningham