ELMO Software

HR | Payroll | Time & attendance

ELMO acquires Breathe

HR platform for Small Business

ASX:ELO

7 October 2020

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Transaction Highlights

Increases ELMO's market opportunity

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ELMO has acquired 100% of the shares in Breathe

Breathe is a high growth UK based HR platform designed for **Small Business (<50 employees)**

Market opportunities:

- Breathe's scalable platform opens lucrative A$2.2bn new market segment (small business) for ELMO in Australia, New Zealand and the UK
- Leveraging ELMO's product suite to cross-sell additional modules into Breathe's 6,700+ customers
- Expands UK footprint

Highlights

- ARR of £3.6m (A$6.5m)[1,2] and has been growing over 30% annually
- 100% subscription revenue
- 6,700+ small business customers
- Over 85% customer retention

Purchase consideration

- Initial payment - £18.0m (A$32.4m) using a combination of cash and scrip
- Earnout consideration – est. £4.0m (A$7.2), subject to financial targets

Transaction completed simultaneously with execution of the sale and purchase agreement on 7 October 2020

Founder Jonathan Richards to continue on as CEO of Breathe UK

1. As at 31 August 2020
2. FX rate GBP/AUD = 1.80

Expanding market opportunity

Both market segment and geographical expansion

- **Segment expansion** to the 'small business' market segment (<50 employees)
- **Fit for purpose self-service solution** for small businesses to automate critical HR processes
  - Self-try
  - Self-buy
  - Self-implement

  } Highly scalable
  All done online by customer
- **Increases Total Addressable Market (TAM) by A$2.2bn** (3.7 million businesses)[1,2] by including new small business market segment in UK, Australia & New Zealand
- **Expands** UK footprint: Breathe is the leading UK based HR platform for small business with 6,700+ customers

Breathe is a high growth UK based HR platform for small business (<50 employees)

1. Frost & Sullivan independent market report 2019/2020
2. Assumes full penetration of ELMO modules across all organisations with < 50 employees

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ELMO's acquisition mandate

ELMO has a 3-fold acquisition mandate and has undertaken 8 acquisitions since 2016

ELMO's 3-fold acquisition mandate

1. Customer base

Facilitating growth through module cross-sell

2. Complementary technology

Enhancing ELMO's competitive advantage and providing new revenue streams

3. UK Footprint

Enabling global expansion by opening new geographic markets

ELMO's historical transaction timeline

Oct-16	Nov-17	Dec-17	Feb-18	Dec-18	Jan-19	Feb-20	Oct-20
TECHNIWORKS ACTION LEARNING	PeoplePulse	SKY PAYROLL	Pivot	hronboard	BoxSuite	Vocam	breathe

- ✓ **Customer base**
  - New market segment (<50 employees)
- ✓ **Complementary Tech**
  - New small bus. platform
- ✓ **UK Footprint**

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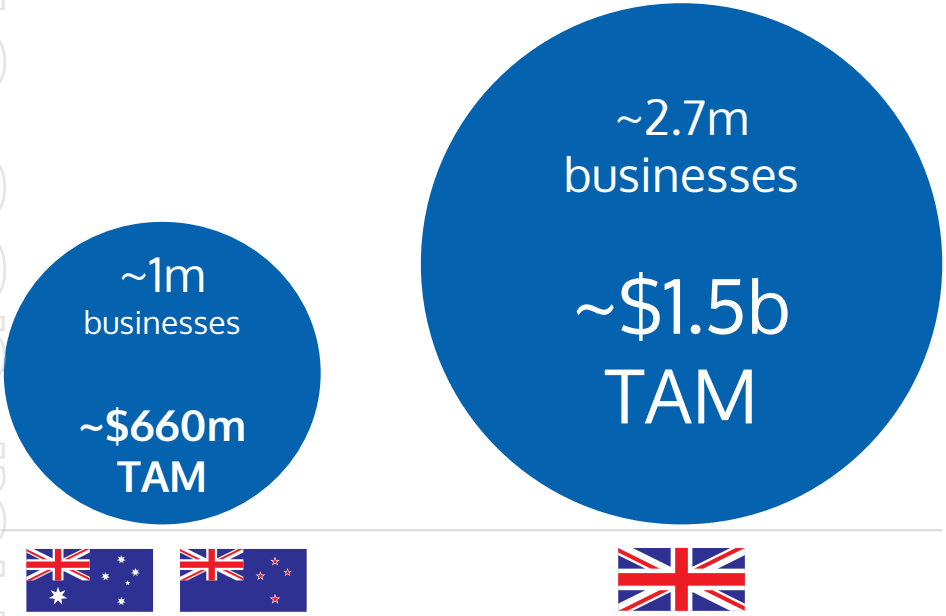
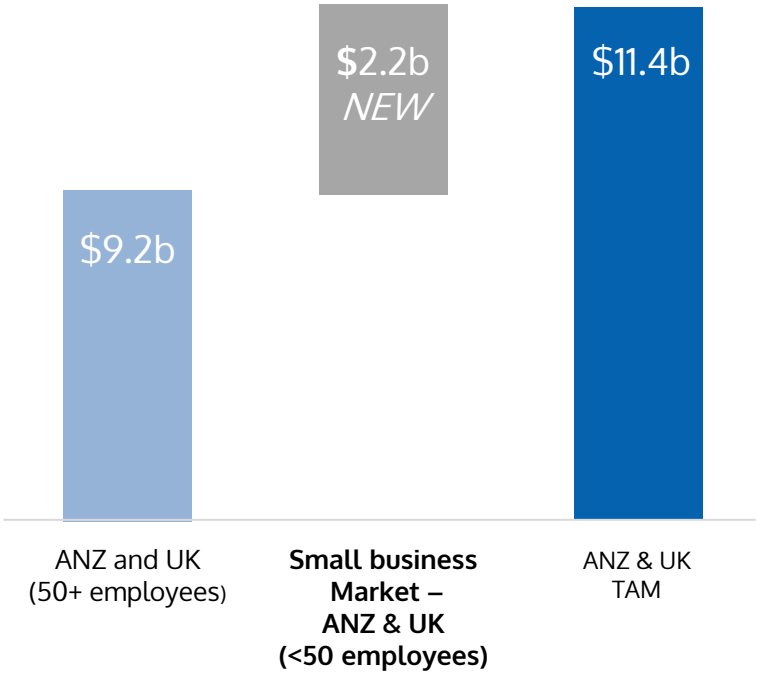
New market opportunity increases ELMO's TAM

By expanding into small business market segment and increasing ELMO's UK footprint

Total addressable market <50 employees (A$)



Total addressable market ANZ & UK (A$)



Increases ELMO's TAM by $2.2b to $11.4b [1,2]

1. Frost & Sullivan independent market report 2019/2020
2. Assumes full penetration of ELMO modules across all organisations

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Breathe snapshot

A UK-based fast-growing scalable HR platform for small business

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breathe

Founded 2012 in the UK	ARR A$6.5m[1] 30%+ growth	6,700+ small business customers
100% Subscription revenue	~85% Customer retention	46 Employees

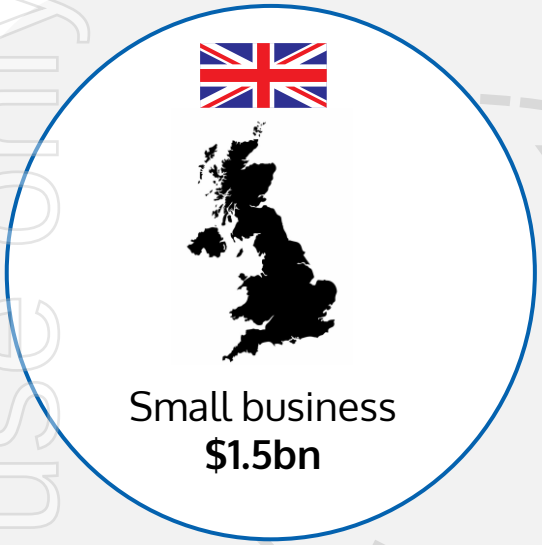
- Self-try
- Self-buy
- Self-implement

Leading HR platform for small business in the UK

1. Metrics provided are as at 31 August 2020

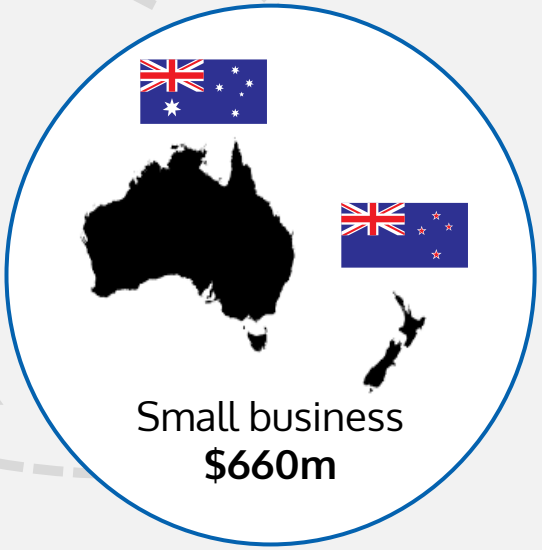
Strategic rationale

Breathe is a high quality and rapidly scaling business



✓ Leveraging ELMO's product suite

Cross-sell
Additional ELMO HR Modules



Launch in ANZ
Breathe small business HR Platform

✓ Leveraging Breathe's market leading platform and ELMO's expertise and infrastructure

Strategic Rationale

Segment expansion
New $2.2bn small business market segment(<50 employees)

Expanding UK footprint
6,700+ customers

New revenue opportunities
- Launch Breathe in ANZ - a A$660m opportunity
- Cross-selling ELMO modules into Breathe's substantial customer base

Significant revenue opportunities from the new market segment and geography

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Entry to Small Business segment

A fit-for-purpose solution for small business

	breathe	ELMO	
Product	**Self-service solution model with a focus on simplicity**	**Configurable multi-module solution suitable for organisations with more complex requirements**	
Market focus	**Small businesses with <50 employees**	**Lower, mid-market businesses with 50-200 employees**	**Mid-market and large organisations with 200+ employees**
Buyer	• Business owner	• Business owner, General Manager, Operations, or HR Manager	• HR Manager, HR Director, Finance Manager
Sales model	• Self-service	• Direct sales, remote based	• Direct Sales, relationship based
Implementation	• Self implementation	• Implementation support required	• Higher level of implementation support required
Price point	• Highly price sensitive	• Less price sensitive	• Customer focused on value over price

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Updated FY21 Guidance

ELMO continues to focus on delivering long term sustainable growth

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ELMO		breathe		Upgraded FY21 Guidance
ARR A$65.0-70.0m	+	ARR A$7.5-8.5m	=	ARR A$72.5-78.5m
Revenue A$57.0-61.0m		Revenue[1] A$4.0-5.0m		Revenue A$61.0-66.0m
EBITDA (A$4.0-7.0m)		EBITDA A$(0.5m) - 0.5m		EBITDA[2] $A(3.5m-7.5m)

As provided to market on 6 August 2020

1. Reflects the estimated revenue from completion to 30 June 2021
2. EBITDA excludes transaction, integration and non-cash share based payments

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