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PayGroup acquires Payroll HQ - Australia's fastest growing payroll provider with outstanding sales leadership

- **Binding agreement to acquire Payroll HQ Pty Limited, an Australian based outsourced payroll provider with high quality corporate client base, delivering ~120,000 payslips annually**
- **Initial consideration of $2.535M, 100% payable in PayGroup shares, to be issued at $0.615 per share, with an earn-out component based on FY21 revenue performance. New shares issued are escrowed for 24 months**
- **Attractive valuation of 1.7x of revenue, in line with Astute and TalentOz acquisitions**
- **Compelling acquisition rationale for PayGroup:**
  - **Immediately adds 100 new corporate clients with significant cross-sell opportunities for PayGroup's full HCM product suite across Payroll HQ's Australian client base;**
  - **Appointment of Payroll HQ's highly experienced Australian-based management & sales team to further drive PayGroup's Australian growth strategy;**
  - **Increased market exposure to Australia's fast-growth HCM & payroll outsourcing sector in post-pandemic economy; and**
  - **Further increases upsell opportunities for PayGroup's TalentOz suite of HCM modules**
- **Payroll HQ is expected to add $2.25M in revenue to PayGroup (up from planned ARR[1] of $433k contributed via the Global Channel Partnership program contract signed in May 2020)**

Melbourne, 4 November 2020: Human Capital Management and payroll provider PayGroup Limited ("PayGroup", "the Group"; ASX: PYG), today announced it has executed a binding Share Purchase Agreement ("Agreement") to acquire 100% of the shares in Payroll HQ Pty Ltd ("Payroll HQ") ("the Acquisition").

Total consideration for the Acquisition of Payroll HQ is $2.535 million, payable through the issue of 4,122,694 PayGroup shares at $0.615 (based on PYG's 90-day VWAP to 2 November 2020). A further earn-out of circa $1.28M is expected to be achieved based on the FY21 (30 June 2021) forecast revenue of Payroll HQ. The earn-out will also be fully paid through the issue of PayGroup shares at the same issue price as the initial consideration. All new shares issued in relation to the Acquisition and earn out will be subject to an escrow period of 24 months.

Payroll HQ is a privately-owned Sydney-based company offering Software-with-a-Service (SwaS) payroll outsourcing services to over 100 high-quality corporate clients in Australia and New Zealand. All contracts have 3 year recurring revenue terms with automated renewals in place and a client retention of >95%. In May 2020, Payroll HQ entered into a service agreement with PayGroup's subsidiary, PayAsia, for delivery of payroll administration services across its client base under PayGroup's Global Channel Partner Program.

[1] ARR refers to Annualised Recurring Revenue. This represents the yearly value of contracted revenue streams

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PayGroup Managing Director, Mr Mark Samlal said, *"The acquisition of Payroll HQ will significantly transform PayGroup's SwaS payroll presence in the Australian market and increase our sales capabilities in Australia. Payroll HQ has an excellent client base and sales pipeline, and is led by a group of experienced and high-performing industry experts. In this current environment, when payroll is so critical to the livelihood of workers, and cost efficiency and agility is a crucial element for all businesses in a post-lockdown economy, we see significant opportunity to grow this business and we welcome the Payroll HQ team on-board."*

Mr Ross Heron, Chief Executive Officer of Payroll HQ said, *"We see real benefits of integrating our business with PayGroup and have already identified many of their product lines – such as Treasury Services and HCM SaaS modules – as being highly attractive to our client base.*

"We have been working with PayGroup as partners since May and we look forward to extending this relationship through this merger. The HCM outsourcing market is experiencing rapid growth in Australia as business requirements have fundamentally changed following the COVID-19 challenges of 2020 and its impact on workforces. We believe that working together with PayGroup will put us in the best position to capitalise on post-pandemic business opportunities."

Overview of Payroll HQ

Payroll HQ is headquartered in Sydney, Australia and is privately owned, with Mr Ross Heron, the current Chief Executive Officer, being the majority shareholder.

Payroll HQ provides a full SwaS payroll outsourcing solution for its clients, and processes in excess of 120,000 payslips per annum. Payroll HQ has over 100 current corporate clients including companies such as Alstom, BBC Studios and ASICS Oceania, and a significant sales funnel, with high client retention.

Ross Heron has extensive sales experience in the HR and payroll outsourcing industry and has grown the scale of Payroll HQ significantly since his appointment. He is supported by a high-performing sales team with a proven track-record and a strong sales pipeline.

Strategic rationale

The Acquisition is underpinned by a highly compelling rationale for PayGroup and is consistent with its strategic plan to grow its revenue and client base, and capitalise on the fast-growing outsourced HCM and payroll markets across the Asia Pacific region.

Payroll HQ is expected to add ~$2.25 million of revenue to PayGroup (on a projected FY21 basis). There will also be substantial cross-selling opportunities for PayGroup across the newly extended client base as the Group can market additional products and services – particularly its full HCM module suite (enhanced as a result of the TalentOz acquisition) and its Treasury Services offering.

The Acquisition will also provide PayGroup with significantly enhanced sales and management capabilities in the Australian market.

The Acquisition multiple of 1.7x of revenue is considered attractive compared to other industry acquisitions, and is in-line with PayGroup's Astute and TalentOz acquisition valuations.

Key Acquisition terms

The Agreement is binding and subject to customary completion conditions. This follows an extensive and thorough due diligence process undertaken by PayGroup.

Under ASX listing rule 7.1, the issue of PYG shares in consideration for the Acquisition will be subject to an Extraordinary General Meeting of PayGroup shareholders to be held on a date to be announced.

PayGroup will retain all 15 of the Payroll HQ employees. New shares issued in relation to the Acquisition will be subject to an escrow period of 24 months.

-ENDS-

For further information, please contact:

Mark Samlal
Managing Director
PayGroup Limited
mark.samlal@payasia.asia

Kyahn Williamson
WE Communication
+61 401 018 828
kwilliamson@we-worldwide.com

This announcement was authorized by the Board of Directors of PayGroup Ltd.

About PayGroup

Headquartered in Melbourne, Australia, PayGroup is the holding company for PayAsia, TalentOz, and Astute One, a specialist provider of payroll and human capital management solutions.

PayAsia is addressing the needs of multinational companies of any size by delivering Software-with-a-Service (SwaS) HCM and payroll solutions and leveraging a Cloud (SaaS) based Human Capital Management platform TalentOz. Clients are typically Multi-National Companies within multiple countries across Asia Pacific and the Middle East.

Astute One is the leader in workforce management solutions for complex businesses especially for Workforce Management Companies in Australia and New Zealand.

PayGroup has now 229 employees located in 11 countries are servicing over 995 client entities representing more than 5 million payslips per annum.

More information on PayGroup can be found at www.paygrouplimited.com.

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