

31 March 2021

FY21 guidance upgrade, strategic acquisition and capital raising

- Following a strong end to the financial year, and further to the Company's announcement on 15 March 2021, PayGroup is pleased to announce an upgrade to:
 - FY21 ARR guidance from \$20.5m to \$21.5m; and
 - FY21 new contracts signed from over \$10m to \$13m
- Separately, PayGroup has entered into an agreement to acquire Integrated Workforce Solutions, a leading provider of franchise payroll and rostering solutions
- Acquisition expands PayGroup's offering into a new high-margin franchise vertical, strengthens the core payroll business, provides substantial cross-sell opportunities, and is expected to make a material contribution to PayGroup's annualised recurring revenue (ARR)
- PayGroup will pay an initial consideration comprising of \$8.4m cash and \$4.35m in PayGroup shares. A Performance Earn-out of up to \$2.55m, payable in PayGroup shares, will be paid upon achieving key operational milestones in FY22 and FY23
- Binding commitments received for a two-tranche placement to raise approximately \$15m at \$0.56 per share, with an SPP to follow for eligible shareholders to raise approximately \$1m

Melbourne, 31 March 2021: PayGroup Limited ("PayGroup" or the "Company"), a leading provider of payroll and human capital management (HCM) solutions is pleased to announce an upgrade to FY21 guidance, a strategic acquisition, receipt of firm commitments to raise \$15m by way of an institutional placement, and a share purchase plan offer to eligible shareholders to raise \$1m.

FY21 guidance upgrade

The Company continues to experience strong demand for its mission-critical payroll and HCM solutions. Accordingly, the Company is pleased to provide updated annualised recurring revenue ("ARR") guidance for FY21 of \$21.5m, an increase of \$1m on previously announced guidance (see ASX announcement dated 15 March 2021). The Company expects the value of new contracts signed in FY21 to be \$13m, an increase of \$3m on previously announced guidance.

PayGroup remains focused on executing on its substantial pipeline of opportunities across the Asia-Pacific region, underpinning the Company's exciting outlook.

Strategic acquisition

Separate to the guidance upgrade, PayGroup is pleased to announce that it has entered into an agreement to acquire 100% of the issued capital of Integrated Workforce Solutions (IWS). IWS is a leading cloud-based workforce management platform specialising in solutions for the franchise sector in Australia and New Zealand. IWS's purpose built proprietary platform simplifies complex payroll administration and includes high margin modules for rostering, time and attendance, award interpretation, KPI and benchmarking tools, and bookkeeping. IWS has a large and captive client base of more than 1,000 customers, for which it processes in excess of 400,000 pay slips per annum. IWS has an established position as the provider for new franchise locations and preferred supplier to existing sites, and a customer retention rate in excess of 94%.

The IWS acquisition expands PayGroup's offering into the large, growing and attractive franchise vertical and enhances PayGroup's core payroll business with optimised franchise payroll capabilities. In addition, the acquisition provides PayGroup an enhanced growth platform with significantly larger customer base and cross-selling opportunities of high margin franchise and HCM modules. Lastly, the acquisition is expected to make a material contribution to PayGroup's growth trajectory and drive increased annual recurring revenue (ARR) and gross margins due to attractive unit economics of the franchise modules.

The total transaction consideration of up to \$15.3m, comprises an Initial Consideration and a Performance Earn-out. The Initial Consideration of \$12.75m is payable partially in cash (\$8.4m) and the balance in PayGroup shares (\$4.35m) – based on the 5-day volume weighted average price (VWAP) prior to the execution of the binding sale and purchase agreement. The Performance Earn-out is based on the achievement of key performance metrics in FY22 and FY23 – based on minimum revenue targets (95% of \$6.2m in FY22 and \$7.4m in FY23) and minimum gross margin targets (70%) for each earn-out period (FY22 and FY23 to June year-end). The Performance Earn-out is calculated at 10% of the Initial Consideration for each earn-out period, at the 5-day VWAP prior to 30 June. All shares issued in consideration for IWS will be subject to a 24-month escrow period from the date of issue.

Mark Samlal, Managing Director of PayGroup, said: *"PayGroup is delighted to provide upgraded FY21 guidance, further demonstrating the accelerating traction of our payroll solution and suite of HCM software. Increasing FY21 ARR and new contract guidance to record numbers is testament to our continued focus on growing our business and executing on our proven strategy."*

We are also pleased to announce the acquisition of IWS, a highly strategic expansion into the franchise vertical, broadening our capabilities and significantly increasing our cross-selling opportunities. IWS strengthens PayGroup's position as a leading provider of mission-critical payroll and scalable HCM solutions as we continue to achieve greater scale."

We are grateful for the ongoing support shown by our existing shareholders and the strong interest received from new investors. This capital raising strengthens our share register with the addition of several new high quality domestic funds. Additionally, we are pleased to provide a share purchase plan to our existing shareholders on the same terms as the placement."

Canaccord Genuity (Australia) Limited acted as the Lead Manager to the Placement. Vesparum Capital is acting in an independent capital markets advisory role for PayGroup.

Details of the Capital Raising

The capital raising consists of a non-underwritten two-tranche placement to raise approximately \$15m ("**Placement**") and non-underwritten Share Purchase Plan of approximately \$1m ("**SPP**") to raise a total of approximately \$16m (together, the "**Capital Raising**"). All shares issued will rank equally with existing PayGroup ordinary shares on issue. The share purchase plan has been sized based on the number of shareholders on the Company's register.

The offer price for the Capital Raising is \$0.56 per new share ("**Offer Price**"), which represents a 11.1% discount to the last close price of \$0.63 per share on Monday 29 March 2021 and a 14.9% discount to the 5-day VWAP price of \$0.658 per share to the same date.

PayGroup intends to use the proceeds from the Capital Raising to fund: the cash consideration of the IWS acquisition; investment in additional sales capabilities across key markets; further investment in automation and artificial intelligence to enhance margins; and working capital and transaction costs.

Placement

PayGroup has secured firm commitments from new and existing investors to raise approximately \$15m (before costs). The Placement was well-supported by sophisticated, experienced, and professional investors, and will see the introduction of several new institutional investors to the Company's register.

Approximately 26.8m new fully paid ordinary shares in the Company ("**New Shares**") will be issued under the Placement at an issue price of \$0.56 per New Share ("**Issue Price**"). The Issue Price represents a 11.1% discount to the last close price of \$0.63 (on 29 March 2021) and a 14.9% discount to the 5-day Volume Weighted Average Price (VWAP) of \$0.658 (up to and including 29 March 2021).

The Placement will be completed in two tranches as follows:

- the issue of 20.3m New Shares to raise approximately \$11.4m under the Company's available ASX listing rule 7.1 (12,071,619 shares) and 7.1A (8,228,381 shares) placement capacity, with settlement expected to occur on or about 9 April 2021 ("**Tranche 1**"); and
- the issue of approximately 6.5m New Shares to raise approximately \$3.6m, subject to shareholders approving resolutions to be proposed at a general meeting of the Company, to be held on or around 13 May 2021 ("**Tranche 2**")

New Shares to be issued under the Placement will rank pari passu with existing shares in the Company.

Share Purchase Plan

PayGroup intends to offer a non-underwritten share purchase plan ("**SPP**") to existing, eligible shareholders to raise approximately \$1m. The SPP allows eligible shareholders, being those shareholders that are residents of Australia or New Zealand that held PayGroup shares at 7:00pm on 30 March 2021 ("**Record Date**"), to subscribe for up to \$30,000 worth of New Shares without incurring any brokerage or transaction costs.

New Shares will be offered under the SPP at \$0.56 per share, being the same issue price as the Placement.

The amount raised under the SPP remains subject to the Company's absolute discretion, with the Company reserving the right to accept over subscriptions or to scale back applications. The SPP will be subject to eligibility criteria and other terms and conditions which will be set out in the SPP booklet to be lodged on the ASX on or about 12 April 2021 and dispatched to shareholders in due course.

PayGroup's Board and Management who are deemed eligible shareholders, have confirmed their intention to participate as eligible shareholders in the SPP.

New Shares to be issued under the SPP will rank pari passu with existing shares in the Company.

Indicative Timetable*

Entered trading halt	30 Mar 2021
Record date for SPP eligibility	30 Mar 2021
Announcement of acquisition and capital raising, trading halt lifted	31 Mar 2021
Settlement of Tranche 1 Placement shares	9 Apr 2021
Expected date of ASX quotation of Tranche 1 Placement shares	12 Apr 2021
Notice of General Meeting lodged with ASX	12 Apr 2021
SPP offer booklet lodged with ASX and despatched to eligible shareholders	12 Apr 2021
SPP offer period opens	12 Apr 2021
SPP offer period closes	27 Apr 2021
Results of SPP lodged with ASX	30 Apr 2021
Expected date of ASX quotation of SPP shares	5 May 2021
General meeting to approve the issue of consideration shares for the IWS acquisition and Tranche 2 Placement shares	13 May 2021
Settlement of Tranche 2 Placement shares	18 May 2021
Expected date of ASX quotation of Tranche 2 Placement shares	19 May 2021

*All dates and times are indicative only and subject to change. The Company reserves the right to amend any or all of these dates and times, subject to the Corporation Act 2001 (Cth), the ASX Listing Rules and other applicable laws and regulations.

Further Information

Further information in relation to PayGroup's FY21 guidance upgrade and the IWS acquisition are set out in the Investor Presentation separately lodged with the ASX today.

-ENDS-

For further information, please contact:

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

About PayGroup

PayGroup is a leading provider of payroll and human capital management (HCM) solutions, delivering mission-critical services. Leveraging PayGroup's deep regulatory and compliance expertise, PayGroup now proudly services enterprise clients in over 40 countries, representing more than 5.5m payslips per annum. PayGroup's core business provides a great foundation for sustainable long-term growth, allowing it to further unlock monetisation opportunities. More information on PayGroup can be found at www.paygrouplimited.com.