



ELMO Software Limited

ABN 13 102 455 087

Preliminary Final Report For the Financial year ended 30 June 2021

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Preliminary Final Report

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ELMO Software Limited

Preliminary Final Report for the year ended 30 June 2021

ASX Appendix 4E

Results for announcement to the market

ELMO Software Limited (the 'Company') and its controlled entities (the 'Group') results for announcement to the market are detailed below.

The current reporting period is 1 July 2020 to 30 June 2021.

The previous corresponding period is 1 July 2019 to 30 June 2020.

Key information

In \$'000

	30 June 2021	30 June 2020	%
Revenues from ordinary activities	69,106	50,051	38%
Net loss after tax attributable to equity owners	(37,626)	(18,616)	102%

Dividends

No dividend was paid or proposed during the financial year ended 30 June 2021 (2020: \$nil).

Other information

	Reporting period (cents)	Previous period (cents)
Net tangible (liabilities)/assets per ordinary security	(24.38)	124.08
Loss per share	(42.89)	(25.42)

The net tangible asset per ordinary security is calculated based on 89,223,315 ordinary shares on issue at 30 June 2021 and 85,659,114 shares in existence at 30 June 2020. Net tangible assets includes the right-of-use assets and lease liabilities in the above calculation.

Control gained over entities during the current period

Entity	Date control gained	%
Centurion Management Systems Limited (i)	7 October 2020	100%
Signifo Ltd (ii)	16 December 2020	100%
Webexpenses Inc	16 December 2020	100%
Webexpenses Pty Ltd	16 December 2020	100%

(i) Trading as Breathe

(ii) Trading as Webexpenses UK

Explanation of results

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited consolidated financial statements. The Preliminary Final Report is unaudited and contains disclosures which are extracted or derived from the consolidated financial statements for the year ended 30 June 2021. The consolidated financial statements are being audited and are expected to be made available on 31 August 2021.

Review of Operations

Strategy and operations of the ELMO Group

ELMO is a leading provider of Software-as-a-Service (SaaS), cloud-based Human Resources (HR), payroll and expense management solutions in Australia, New Zealand and more recently the United Kingdom (UK). With over 500 employees the ELMO Group primarily operates in two segments, mid-market through the ELMO platform, and small business through the Breathe platform.

In the mid-market, ELMO's HR, payroll and expense management software solutions enable organisations to manage the lifecycle of an employee from hire to retire on a single integrated platform. The Group develops, sells and implements a range of modular software applications to efficiently manage HR, payroll and expense management related processes.

ELMO's solutions assist organisations to better address and adapt to the complexities of the Human Capital Management (HCM) industry while increasing their productivity and reducing costs.

ELMO has enhanced its mid-market offering with the acquisition of UK based Webexpenses in December 2020. Webexpenses is an expense management point solution which adds to ELMO's revenue, customer base and market opportunity. The acquisition opens up a significant two-way cross-sell opportunity by offering expense management to ELMO customers and HR modules to Webexpenses customers. The addition of Webexpenses has increased the estimated size of the total addressable market to \$10.6 billion.

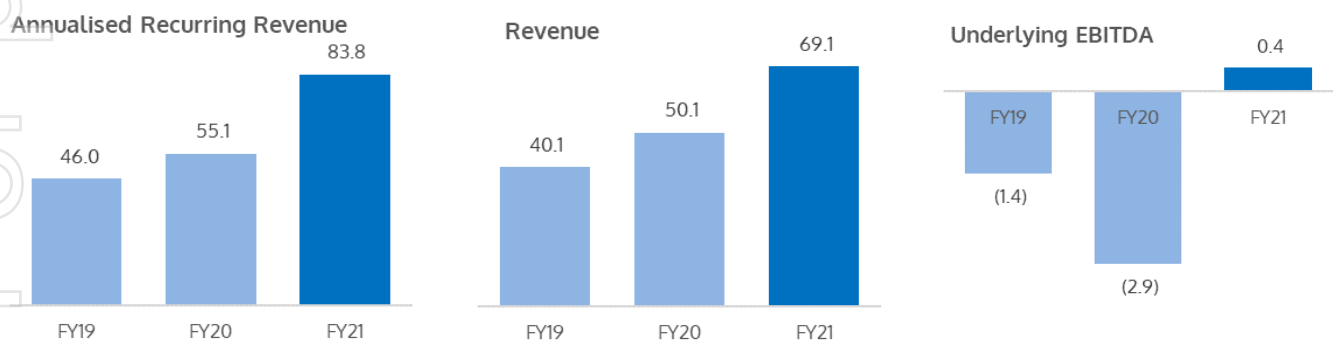
ELMO has completed the integration of Webexpenses and commenced the cross-sell of expense management to existing ELMO customers as well as including the solution in sales to new customers. Commencing in FY22, ELMO will leverage Webexpenses' operational footprint in the UK to launch ELMO's mid-market HR solution there.

ELMO also entered the small business segment during FY21 through the acquisition of UK based Breathe in October 2020. Breathe is a market leading self-service HR solution for small business, with over 9,000 customers and growing rapidly. Breathe presents significant new revenue opportunities for the Group in Australia, New Zealand and the UK.

ELMO has added additional modules to the Breathe platform in the UK which provides new revenue streams and cross-sell opportunities. Breathe was introduced into the Australian market during 2H21 and the company will be ramping up activities in the region through FY22. The total addressable market of the small business segment is estimated to be \$2.2 billion.

Financial and operational performance for the year

Highlights



The ELMO Group has seen significant growth across the key metrics of Annualised Recurring Revenue (ARR), revenue and underlying EBITDA through FY21 when compared to FY20.

ARR and Revenue

The Group achieved ARR of \$83.8 million, an increase of 52.1% compared to the prior year (FY20: \$55.1 million). The growth in ARR was driven by the return of business confidence and the increase in remote based working as a result of COVID-19 which is resulting in businesses increasingly adopting cloud-based HR technology to help with the management of the workforce. This has resulted in:

- organic growth of 26.0% across both the mid-market and small business operations, primarily through the increase in the number of customers and cross-sell to existing customers; and
- the contribution from the acquisitions of both Webexpenses and Breathe.

Within the organic ARR growth the mid-market solution is returning towards pre-COVID growth rates, recording organic growth of 21.4% through the year and the small business segment saw accelerated growth of 51.8% on an annualised basis.

Organic growth in the mid-market reflected a temporary decrease in customer retention as some customers in more affected sectors suffered hardship as a result of COVID-19, particularly in 1H21.

The growth in ARR translated to revenue increasing to \$69.1 million, an increase of 38.1% compared to the prior year (FY20: \$50.1 million). The gross profit margin has remained high at 86.6%, a 130-basis point increase compared to FY20.

Underlying EBITDA

ELMO achieved an underlying EBITDA of \$0.4 million, an improvement of \$3.3 million compared to the prior period (FY20: loss of \$2.9 million). The growth in underlying EBITDA was due to revenue growth coupled with increased operating cost leverage across sales & marketing, research & development (R&D) and general & administrative expenses.

Underlying EBITDA reflects the receipt of government stimulus payments of \$1.8 million, which were invested into the retention and hiring of additional employees. In addition, underlying EBITDA reflects a temporary increase in the impairment of trade receivables reflecting the hardship on some customers more acutely affected by the pandemic.

The net loss before significant items was \$26.7 million, compared with a loss of \$17.2 million in the prior year. The increase in the loss was driven by the factors outlined above coupled with the additional amortisation expense relating to the investment in R&D through this year and prior years.

ELMO Software Limited

Preliminary Final Report for the year ended 30 June 2021

Consolidated income statement summary

A\$m	FY21	FY20
Revenue	69.1	50.1
Gross profit ¹	59.9	42.8
Gross profit %	86.6%	85.3%
Underlying EBITDA²	0.4	(2.9)
Underlying EBITDA %	0.6%	(5.7%)
Depreciation and amortisation	(27.4)	(15.7)
Finance income/expenses	(0.3)	(0.2)
Taxation	0.6	(1.6)
Net loss before significant items	(26.7)	(17.2)
Net loss before significant items %	(38.6%)	(34.3%)
Significant items ³	(10.9)	(1.4)
Net loss after tax attributable to equity owners	(37.6)	(18.6)
Cents per share		
Loss per share pre significant items	(30.56)	(23.51)
Loss per share	(42.89)	(25.42)

1. Gross profit stated above excludes non-cash share-based payments of \$0.2 million and sales commission amortisation of \$2.3 million which are included within cost of sales in the statutory cost of sales on page 7.
2. Underlying EBITDA is a key measure of the underlying performance of the Group.
3. Significant items relate to changes in the fair value of contingent consideration of \$3.9 million (FY20: nil), non-recurring expenses of \$1.9 million (FY20: \$0.3 million) and non-cash share-based payments of \$5.2 million (FY20: \$1.1 million).

Basis of preparation

This report includes Annualised Recurring Revenue and underlying EBITDA, measures used by the Directors and management in assessing the on-going performance of the ELMO Group. Annualised Recurring Revenue and underlying EBITDA are non-IFRS measures and have not been audited or reviewed in accordance with Australian Accounting Standards.

Annualised Recurring Revenue is calculated at a point in time and, in this report, reflects the annualisation of revenue at 30 June 2021 and 30 June 2020.

Underlying EBITDA is calculated as profit/(loss) before interest, taxes, depreciation of plant and equipment, amortisation of intangibles, changes in the fair value of contingent consideration, share based payments and significant non-recurring transactions. Underlying EBITDA, which is reconciled in the above table is a measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's performance excluding significant transactions and non-cash items which are not representative of the Group's on-going operations.

Capital management

ELMO is well capitalised to fund future growth initiatives and as at 30 June 2021 held a cash balance of \$81.9 million, which includes a term deposit of \$15 million with a maturity date of 15 March 2022.

The total cash receipts through FY21 totalled \$79.8 million reflecting a 38.8% increase compared to FY20 (FY20: \$57.5m).

On 15 March 2021 ELMO secured a three-year debt facility with the Commonwealth Bank of Australia for \$34.5 million to provide additional balance sheet flexibility and to support future growth initiatives. As at 30 June 2021 the majority of this facility was drawn.

ELMO Software Limited
Consolidated Statement of profit or loss and other comprehensive income or loss
For the year ended 30 June 2021
Preliminary final report

	Note	Consolidated 2021 \$'000	2020 \$'000
Revenue from contracts with customers	4	69,106	50,051
Cost of sales		(11,693)	(7,980)
Gross profit		57,413	42,071
Other income		1,826	2,006
Sales and marketing expenses		(30,921)	(22,589)
Research and development expenses		(12,271)	(6,102)
General and administrative expenses		(22,674)	(18,100)
Depreciation and amortisation expense		(25,140)	(15,041)
Impairment loss on trade receivables		(2,010)	(2,109)
Net gain on derecognition of financial assets measured at cost		134	17
Changes to fair value of contingent consideration	9	(3,866)	-
Finance income		452	770
Finance costs		(744)	(1,006)
Share of loss from joint venture		(461)	(182)
Loss before income tax expense from continuing operations		(38,262)	(20,265)
Income tax benefit	5	636	1,649
Loss after income tax expense for the year		(37,626)	(18,616)
Other comprehensive loss for the year, net of tax		767	94
Total comprehensive loss for the year attributable to the owners of ELMO Software Limited		(36,859)	(18,522)
Loss per share			
From continuing operations		Cents	Cents
Basic earnings	12	(42.89)	(25.42)
Diluted earnings	12	(42.89)	(25.42)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

ELMO Software Limited
Consolidated Statement of financial position
As at 30 June 2021
Preliminary final report

	Note	Consolidated 2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents		81,944	139,887
Trade and other receivables		13,724	10,386
Derivative financial instruments	9	400	-
Other current assets		3,567	1,636
Income tax refundable		-	81
Finance lease receivable		82	206
Total current assets		99,717	152,196
Non-current assets			
Investment in jointly controlled entity		1,037	1,498
Property, plant and equipment		8,422	4,589
Intangible assets and capitalised costs	6	188,595	72,961
Right-of-use assets		18,774	14,991
Finance lease receivable		-	83
Total non-current assets		216,828	94,122
Total assets		316,545	246,318
Liabilities			
Current liabilities			
Trade and other payables		14,644	10,842
Deferred and contingent consideration	9	35,234	6,208
Lease liabilities	10	4,041	2,741
Employee benefits		4,494	3,273
Current tax liabilities		441	-
Contract liabilities		32,545	26,098
Total current liabilities		91,399	49,162
Non-current liabilities			
Loans and borrowings	7	30,000	-
Deferred and contingent consideration	9	313	500
Lease liabilities	10	20,155	16,006
Employee benefits		799	436
Deferred tax		5,002	450
Contract liabilities		2,031	516
Total non-current liabilities		58,300	17,908
Total liabilities		149,699	67,070
Net assets		166,846	179,248
Equity			
Share capital	11	235,695	214,156
Reserves		5,565	1,880
Accumulated losses		(74,414)	(36,788)
Equity attributable to the owners of ELMO Software Limited		166,846	179,248
Total equity		166,846	179,248

The above statement of financial position should be read in conjunction with the accompanying notes

ELMO Software Limited
Consolidated Statement of changes in equity
For the year ended 30 June 2021
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Consolidated	Issued capital \$'000	Foreign currency reserves \$'000	Share option reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019	72,733	5	831	(18,172)	55,397
Loss after income tax benefit for the year	-	-	-	(18,616)	(18,616)
Other comprehensive income for the year, net of tax	-	94	-	-	94
Total comprehensive loss for the year	-	94	-	(18,616)	(18,522)

Transactions with owners in their capacity as owners:

Shares issued under institutional placement	125,000	-	-	-	125,000
Shares issued under share purchase plan	17,801	-	-	-	17,801
Exercise of unlisted options	669	-	-	-	669
Less: share placement costs (net of tax)	(3,047)	-	-	-	(3,047)
Issue of shares under business combinations (net of cost)	1,000	-	-	-	1,000

Reserves:

Equity settled share-based payment	-	-	1,086	-	1,086
Exercise of unlisted options	-	-	(136)	-	(136)

Balance at 30 June 2020	214,156	99	1,781	(36,788)	179,248
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Consolidated	Issued capital \$'000	Foreign currency reserves \$'000	Share option reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	214,156	99	1,781	(36,788)	179,248
Loss after income tax benefit for the year	-	-	-	(37,626)	(37,626)
Other comprehensive loss for the year, net of tax	-	767	-	-	767
Total comprehensive loss for the year	-	767	-	(37,626)	(36,859)

Transactions with owners in their capacity as owners:

Issue of shares under business combinations (see note 8)	21,223	-	-	-	21,223
Vesting of performance rights and exercise of options	316	-	(254)	-	62

Reserves:

Shares purchased by Trust	-	-	(2,000)	-	(2,000)
Equity settled share-based payment	-	-	5,172	-	5,172

Balance at 30 June 2021	235,695	866	4,699	(74,414)	166,846
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ELMO Software Limited
Consolidated Statement of cash flows
For the year ended 30 June 2021
Preliminary final report

	Note	Consolidated 2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of indirect taxes)		79,819	57,498
Payments to suppliers and employees (inclusive of indirect taxes)		(77,274)	(53,200)
		2,545	4,298
Other income received		3,898	1,736
Income taxes refunded		59	35
Net cash generated from operating activities		6,502	6,069
Cash flows from investing activities			
Interest received		467	746
Payment for investment in jointly controlled entity		-	(1,180)
Payment of deferred consideration from acquisitions in the prior period		(5,839)	(3,770)
Payments for property, plant and equipment		(5,875)	(1,785)
Payments for intangibles		(30,554)	(21,423)
Payment for acquisitions of businesses and subsidiaries, net of cash acquired		(46,216)	(2,255)
Receipt for lease incentives		1,338	-
Net cash used in investing activities		(86,679)	(29,667)
Cash flows from financing activities			
Proceeds from issue of shares		-	142,801
Shares purchased by trust (ESS)		(2,000)	-
Proceeds from exercise of share options		60	511
Share issue transaction costs (net of tax)		(328)	(4,356)
Proceeds from borrowings		30,000	-
Borrowings transaction costs		(399)	-
Repayment of lease liabilities		(5,116)	(3,259)
Net cash generated from financing activities		22,217	135,697
Net (decrease)/increase in cash and cash equivalents		(57,960)	112,099
Cash and cash equivalents at the beginning of the financial year		139,887	27,698
Effect of exchange differences on cash balances		17	90
Cash and cash equivalents at the end of the financial year		81,944	139,887

ELMO Software Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2021

Note 1. Statement of Significant accounting policies

Statement of Compliance

The Preliminary Final Report (the Report) has been prepared in accordance with the ASX Listing Rule 4.3A and has been derived from the unaudited consolidated financial statements. The consolidated financial statements have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period and the *Corporations Act 2001*. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS') and interpretations ('IFRICs') adopted by the International Accounting Standards Board ('IASB').

The preliminary final report has been prepared on the historical cost basis except for derivative financial assets, contingent consideration payables and share-based payment transactions which are stated at their fair value.

The report has been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due. As at 30 June 2021 the Group has a cash balance of \$81.9 million with net current assets of \$8.3 million but this includes non-cash elements of contract liabilities for deferred subscription revenue of \$32.5 million and contingent consideration to be settled in shares of \$7.3 million.

The consolidated financial statements are in the process of being audited and are expected to be made available on 31 August. Accordingly, this report should also be read in conjunction with any public announcements made by the Company during the year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and ASX Listing Rules.

The Group is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this Report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. This includes amendments to AASB 3 Definition of a business, AASB 101, AASB 108 Definition of material. There was no significant impact from the application of these amendments. The impact of the IFRIC Agenda decision regarding Cloud Computing Arrangements has been deemed to have a insignificant effect on current or previous financial years.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Revenue recognition

Judgement is required as to whether revenue is recognised over time or at a point in time (see note 4).

Business combinations

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting are retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

There is significant judgement involved including determining the fair value of consideration and critically valuing the intangible assets for each business combination. Several factors are taken into consideration in valuing intangibles including replacement cost for software and revenue growth assumptions and discount rates underlying the valuation of customer lists and software.

ELMO Software Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2021

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Contingent consideration

There is uncertainty around the actual payments that will be made in relation to contingent consideration for acquisitions that will be subject to the performance of the acquired entity subsequent to the reporting date for which a fair value assessment is made at the reporting date based on information available. See note 9.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Impairment of goodwill

The consolidated entity assesses impairment of goodwill and other indefinite life intangible assets annually by performing a value in use calculation, which incorporate a number of key estimates and assumptions. In determining the ELMO CGU's fair value significant judgement is used in considering the appropriate comparable companies, and consequently the appropriate revenue multiple to determine ELMO's fair value. See note 6.

Credit risk

During the current challenging economic environment, credit risk is assessed to be a critical accounting judgement regarding estimations and assumptions over the expected credit loss allowance. See note 10.

Note 3. Operating segments

Operating segments, are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive management team.

A change has been made to ELMO's operating segments since FY20 following consideration of the acquisitions made during the year. The acquisition of Breathe introduced a new solution aimed at small business creating a new target market which has been identified as a separate operating segment – Small business solution.

The acquisition of Webexpenses provides an additional module to the current range of ELMO software applications serving the mid-market and has therefore been included within the Mid-market solution.

For FY21 therefore the Group operates in two distinct segments being:

- Small business solution providing a self-service HR platform;
- Mid-market solution providing range of modular software applications to efficiently manage HR and pay.

These segments are managed and reported separately because the operating markets in which the product is sold are fundamentally different.

Segment underlying EBITDA is the measure used by the CODM to measure the segment results. Segment underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation and excludes share-based payments and long-term incentives, fair value adjustments to contingent consideration and other significant items identified to be one-off in nature.

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Notes to the Preliminary Final Report
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Note 3. Operating segments (continued)

2021	Small business solution \$'000	Mid-market Solution \$'000	Total \$'000
Segment Revenue	5,498	63,608	69,106
Share of loss from joint venture	-	(461)	(461)
Segment Underlying EBITDA	(1,194)	1,599	405
Net finance costs			(292)
Depreciation and amortisation			(27,409)
Share-based payments			(5,172)
Fair value adjustment to contingent consideration			(3,866)
Significant one-off items			(1,928)
Loss before tax			(38,262)

In the previous financial statements for the year ended 30 June 2020 there was only one operating segment and the prior year segment disclosure corresponded to the primary statements and notes.

Major customers

During the years ended 30 June 2021 and 30 June 2020 no single customer contributed 10% or more to the Group's external revenue.

Geographical information

	Revenue from external customers		Geographical non-current assets	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Australia	52,963	45,512	96,770	78,599
New Zealand	5,465	4,333	13,403	13,853
United Kingdom	10,526	206	105,287	89
Rest of the World	152	-	330	-
	69,106	50,051	215,790	92,541

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts; specifically for the current year excludes the investment in jointly controlled entity of \$1,037,000 (2020: investment in jointly controlled entity and finance lease receivable of \$1,581,000). Segment assets and liabilities are not regularly reported to the CODM.

Note 4. Revenue from contracts with customers

Timing of revenue recognition	Small business solution		Mid-market solution		Total	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Revenue recognised at a point in time	-	-	2,280	1,181	2,280	1,181
Revenue recognised over time	5,498	-	61,328	48,870	66,826	48,870
Total revenue	5,498	-	63,608	50,051	69,106	50,051

ELMO Software Limited
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Note 5. Income tax expense

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax expense	(389)	50
Deferred tax – origination and reversal of temporary differences	1,025	1,909
Adjustment recognised for prior periods – current tax	-	(201)
Adjustment recognised for prior periods – deferred tax	-	(109)
Aggregate income tax benefit	636	1,649
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(4,552)	1,800
Deferred tax – origination and reversal of temporary differences	(4,552)	1,800
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax expense	(38,262)	(20,265)
Tax at the statutory tax rate of 30%	11,479	6,080
Tax effect amounts which are not deductible in calculating taxable income:		
Tax rate difference in overseas tax jurisdictions	(1,930)	-
Effect of expenses that are not deductible in determining taxable profit	(873)	(657)
Non-deductible R&D costs (R&D tax offset not booked)	(328)	(578)
Tax losses not recognised	(8,034)	(2,886)
Adjustment for prior income year	-	(201)
Deferred tax not recognised	332	-
Other	(10)	-
		1,758
Adjustment to opening deferred tax asset	-	(109)
Income tax benefit	636	1,649

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Note 6. Intangibles assets and capitalised costs

	Consolidated	
	2021	2020
	\$'000	\$'000
Software development costs	81,888	42,724
Accumulated amortisation	(39,142)	(20,513)
	<u>42,746</u>	<u>22,211</u>
Capitalised sales commission costs	11,952	6,673
Accumulated amortisation	(5,398)	(3,131)
	<u>6,554</u>	<u>3,542</u>
Customer lists (acquired through business combinations)	19,084	9,829
Accumulated amortisation	(4,717)	(2,825)
	<u>14,367</u>	<u>7,004</u>
Goodwill	117,650	39,625
Trademarks (acquired through business combinations)	7,278	579
	<u>188,595</u>	<u>72,961</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Software development costs	Capitalised Commission costs	Customer lists	Goodwill	Trademarks	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated						
Balance at 1 July 2019	13,613	1,401	7,216	36,051	579	58,860
Additions	17,459	3,182	-	-	-	20,641
Additions through business combinations (note 22)	525	-	1,013	3,541	-	5,079
Amortisation expense	(9,428)	(1,043)	(1,225)	-	-	(11,696)
Effects of movements in exchange rates	42	2	-	33	-	77
Balance at 30 June 2020	22,211	3,542	7,004	39,625	579	72,961
Additions	26,079	5,279	-	-	-	31,358
Additions through business combinations (note 8)	12,916	-	9,100	76,738	6,582	105,336
Amortisation expense (i)	(18,688)	(2,267)	(1,892)	-	-	(22,847)
Revalue/Effects of movements in exchange rates	228	-	155	1,287	117	1,787
Balance at 30 June 2021	42,746	6,554	14,367	117,650	7,278	188,595

(i) Amortisation for capitalised commission costs is recognised under cost of sales within the consolidated statement profit or loss.

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Note 6. Intangibles assets and capitalised costs (continued)

Goodwill arose during the current financial year through the acquisition of Breathe and Webexpenses (2020: Vocam); refer to Note 8 for further details.

Goodwill and intangible assets with indefinite useful lives are allocated to a CGU and tested annually for impairment.

During FY21 a change has been made to ELMO's operating segments following consideration of the acquisitions made during the year. The acquisition of Breathe introduced a new solution aimed at small business creating a new target market which has been identified as a separate operating segment – Small business solution. This new segment has also been identified as a separate CGU this year. Goodwill in relation to the Breathe acquisition has been allocated to the Small business solution CGU.

The acquisition of Webexpenses provides an additional module to the current range of ELMO software applications serving the mid-market and therefore including within the existing CGU. Goodwill in relation to the Webexpenses acquisition has been allocated to the Mid-market solution CGU.

Following the determination of the two CGUs being small business and mid-market solutions the goodwill and trademarks as indefinite useful live assets have been allocated as follows:

	Consolidated			
	2021		2020	
	Trademarks	Goodwill	Trademarks	Goodwill
	\$'000	\$'000	\$'000	\$'000
Small business solution	2,678	31,475	-	-
Mid-market business solution	4,600	86,175	579	39,625
	7,278	117,650	579	39,625

The recoverable amounts of the CGUs to which the assets have been allocated have been determined based on value-in-use calculations using a five-year cash flow forecast from internal budgets and long-term management forecasts. A terminal growth factor that estimates the long-term growth for the CGU is applied to the year 5 cash flows into perpetuity. The terminal growth rates do not exceed the long term expected industry growth rates. These calculations are performed based on cash flow projections and require the adoption of assumptions and estimates.

The key assumptions used in the estimation of the recoverable amounts are set out below. Each of these assumptions and estimates is based on a best estimate at the time of performing the valuation. The values assigned to the key assumptions represent management's assessment of future trends and based on historical data from both external and internal sources.

	2021
Discount rate	10.3%
Terminal value growth rate	3.0%

Based on the impairment assessment conducted, no impairment losses have been identified or recognised for the year ended 30 June 2021.

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Note 7. Loans and borrowings

	Consolidated
	2021 2020
	\$'000 \$'000
<i>Non-current liabilities</i>	
Secured bank loans	30,000 -

On 15 March 2021, the Group secured a \$34.5 million multi-purpose debt facility from the Commonwealth Bank of Australia comprising of an \$30.0 million acquisition facility with an interest rate of BBSY + 2.6%, and a \$4.5 million bank guarantee facility with an effective interest rate of 2%. As of 30 June 2021, the acquisition facility was fully drawn and AUD \$3.4 million of the bank guarantee facility was drawn.

During the year ended 30 June 2021 borrowing costs of \$271,000 were expensed to the profit or loss.

Note 8. Business combinations and acquisitions of business assets

During the year the Group acquired interests in Breathe and Webexpenses entities, (2020: Vocam). Key information on the acquisitions is summarised in the table below:

	Acquired in the year ended 30 June 2021		Acquired in the year ended 30 June 2020 Vocam
	Breathe \$'000	Webexpenses \$'000	\$'000
Net tangible assets	95	609	13
Cash	-	954	-
Customer list	4,089	5,011	1,013
Software	4,925	7,991	525
Trademark	2,678	3,904	-
Other assets	658	2,597	-
Contract liability	(724)	(1,136)	(966)
Deferred tax liability	(2,237)	(3,293)	(304)
Other liabilities	(956)	(3,051)	(79)
Net identifiable assets acquired	8,528	13,586	202
Goodwill on acquisition	31,475	45,263	3,248
Fair value of the total consideration at acquisition comprising:	40,003	58,849	3,500
Cash	29,058	18,112	2,500
Shares	3,669	17,554	1,000
Contingent consideration	7,276	23,183	-

The purchase price allocation for the acquisitions of Breathe and Webexpenses during the year ended 30 June 2021 have now been finalised. As at 30 June 2021 there was a net fair value adjustment to the contingent consideration for Breathe and Webexpenses of \$4.1 million to reflect the expected performance of the entities compared to expectations at the acquisition date, which has been recognised in the profit or loss statement.

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Note 8. Business combinations and acquisitions of business assets (continued)

Deferred consideration paid

Acquired entity	Consideration settled in shares \$'000	Consideration settled in cash \$'000
<i>Settled in FY21</i>		
BoxSuite	-	105
HROnboard	-	5,234
Vocam	-	500
<i>Settled in FY20</i>		
Sky Payroll	-	400
BoxSuite	-	435
HROnboard	-	2,935

As at 30 June 2021, consideration has been settled in final in relation to BoxSuite, HROnboard and Vocam with a resulting gain to the profit or loss of \$368,518.

FY21 Acquisitions

Breathe

On 7 October 2020, ELMO completed the purchase of 100% of the shares and voting rights in Centurion Management Systems Limited (trading as Breathe) for a purchase consideration of £18.0 million (cash and scrip) and an estimated earnout consideration payable in October 2021 based on an ARR multiple fixed in August 2021 of £10.8 million (\$20 million) including an adjustment in fair value from the estimated contingent consideration at the acquisition date.

The acquisition of Breathe has provided entry into a new market segment being the small business market. Goodwill is generated through the transaction in presenting significant new revenue opportunities for the Group. ELMO has added additional modules to the Breathe platform in the UK which provides new revenue streams and cross-sell opportunities. Breathe was introduced into the Australian market during 2H21 and the company will be ramping up activities in the region through FY22.

Webexpenses

On 16 December 2020, ELMO completed the purchase of 100% of the shares and voting rights in Webexpenses entities (including Signifo Ltd (UK), Webexpenses Inc. (US) and Webexpenses Pty Ltd (AU) for a purchase consideration of £20.0 million (cash and scrip) and an estimated earnout consideration based on an ARR multiple fixed in March 2022 of £8.1 million (\$15 million) including an adjustment in fair value from the estimated contingent consideration at the acquisition date.

Goodwill is generated through the transaction by adding to ELMO's revenue, customer base and market opportunity. The acquisition of Webexpenses opens up a significant two-way cross-sell opportunity for ELMO by offering expense management to ELMO customers and HR modules to Webexpenses customers.

FY 20 Acquisitions

Vocam (Vocam Pty Ltd (AU) and Safety Learning Ltd (UK))

On 27 February 2020 the Group completed the purchase of 100% of the shares in Vocam group entities (Vocam) for a total consideration of \$3.5 million to be funded by \$2.5 million cash and \$1 million shares of the parent company, which is subject to a 12-month voluntary escrow plus a cash balance repaid of \$0.3 million.

Vocam is a leader in HR and safety video e-learning content with offices in Australia and the United Kingdom. The acquisition also gives ELMO access to cutting edge video production and post-production facilities in Melbourne and the Philippines. This will enable ELMO to expand and update video content according to changing customer and industry requirements.

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Note 8. Business combinations and acquisitions of business assets (continued)

Results for the entities acquired included in the consolidated statement of comprehensive income for the current and prior reporting period since the appropriate acquisition date for each transaction as stated above are as follows:

	Revenue \$'000	Loss before tax \$'000
Year ended 30 June 2021		
Breathe	5,497	(1,717)
Webexpenses	5,452	(2,326)
Year ended 30 June 2020		
Vocam	687	137

If the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period, the results for ELMO Software Limited, being the combined entity including a full year of results for Breathe and Webexpenses (2020: Vocam) would have been:

	2021 \$'000	2020 \$'000
Revenue	74,500	51,500
Loss before tax	(38,000)	(20,200)

The Group incurred costs of \$1.9 million (2020: \$0.3 million) in relation to all acquisitions made during the year. These costs have been included in business acquisition expenses.

Note 9. Contingent considerations

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

(i) Changes to the fair value include adjustments of \$12.4 million for Breathe, (\$8.3 million) for Webexpenses and (\$0.2 million) to Hero Brands.

(ii) Includes \$7.3 million to be settled in shares for Webexpenses contingent consideration.

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Note 10. Financial risk management

The Group has exposure to the following risks arising from financial assets and liabilities:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the Audit and Risk Committee, which includes responsibility for developing and monitoring the Group's risk management policies. The Committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The role of the Audit and Risk Committee for the Group is to:

- Provide oversight of the integrity of internal financial reporting and the external financial statements;
- Review the effectiveness of the internal financial controls;
- Review the independence, objectivity and performance of the external auditors; and
- Provide guidance on risk management,

The Group maintains a comprehensive risk exposure matrix which is regularly reviewed, monitored and updated. As part of the risk management strategy the Group constantly evaluates risk and risk acceptance.

Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations; related to trade receivables and lease receivables for the Group.

The average credit period on sales of products and services is 30 days. No interest is charged on outstanding trade receivables. The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtors current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry and an assessment of both current and forecast conditions.

New customers are typically invoiced in advance of their contract commencing with annual renewals also being due for payment in advance of the renewal anniversary. Receivables held are monitored on an ongoing basis to minimise the Group's exposure. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables and lease receivables.

In the light of the COVID-19 pandemic and the potential risk for increased credit losses, the allowance for expected credit losses was reviewed analysing the trade debtors balance by industry. The Group holds receivables from a broad range of industries but with a negligible portion of industries expected to have been significantly affected by COVID.

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Note 10. Financial risk management (continued)

Expected credit loss rates and allowances for expected credit losses are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2021 %	2020 %	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Neither past due nor impaired	1%	-	10,870	6,361	109	-
0 to 3 months overdue	7%	5%	2,545	3,655	186	198
Over 3 months	81%	80%	3,051	2,872	2,448	2,304
Total			16,466	12,888	2,743	2,502

Liquidity risk

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by cash or other financial asset. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and the current conditions impacted by COVID-19, without incurring unacceptable losses or risking damage to the consolidated entity's reputation. This risk is managed through constant monitoring of cash resources and future obligations.

The following are the remaining contractual maturities of financial liabilities at the reporting date:

Maturity profile	Loans and borrowings	Trade and other payables	Deferred and contingent consideration	Lease liabilities
	\$'000	\$'000	\$'000	\$'000
Within 1 year	-	14,644	27,958	4,041
1-2 years	-	-	-	4,255
2-5 years	30,000	-	313	15,900

The Group has a cash balance of \$81.9 million as at 30 June 2021 which includes a security deposit of \$15 million, in the form of a term deposit, relating to the loan facility. This strengthens the Group's financial liquidity in the current market and will allow the Group to not only weather the current crisis but continue to invest in the business. In the event that further resources are required the Group has the potential to raise additional funds through a capital raising and/or acquire further debt.

Interest rate risk

The Group entered into a bank loan during the year which is subject to interest rate risk as well as lease liabilities held. The interest rate will be the average bid rate in addition to a margin applied. The interest charged on the lease liabilities is implicit in the lease and is fixed for all leases currently held and committed.

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Note 10. Financial risk management (continued)

Market risk: Currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investment in foreign subsidiaries. During the current financial year the following forward contracts have been taken out to economically manage the currency exposure on contingent consideration included as part of the Breathe and Webexpenses acquisitions:

Inception date of forward	Amount (£'000)	Currency	Maturity date
30 March 2021	4,000	GBP	30 September 2021
30 March 2021	6,500	GBP	30 March 2022

Hedge accounting is not required due to both the derivative on the forward contract and contingent consideration being recorded at fair value through the profit or loss.

Note 11. Equity - share capital and reserves

Ordinary shares issued and fully paid

	Shares	\$'000
At 1 July 2019	63,232,459	72,733
Issue of shares – Institutional Placement	19,166,667	125,000
Issue of Shares – Share Purchase Plan	2,931,012	17,801
Issue of shares – Business Combination	141,443	1,000
Exercise of unlisted options	187,533	669
Less transaction costs	-	(3,047)
At 30 June 2020	85,659,114	214,156
Issue of shares – Breathe Business Acquisition	699,765	3,669
Issue of shares – Webexpenses Business Acquisition	2,805,650	17,554
Vesting of Performance Rights and exercise of options	58,786	316
At 30 June 2021	89,223,315	235,695

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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Note 12. Loss per share

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Loss per share for loss from continuing operations</i>		
Loss after income tax	(37,626)	(18,616)
	Cents	Cents
Basic loss per share	(42.89)	(25.42)
Diluted loss per share	(42.89)	(25.42)

The calculation of EPS has been based on the following loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

There are no adjustments in relation to the effects of all dilutive potential ordinary shares due to the current loss-making position of the Group for the current financial year.

	Consolidated	
	2021	2020
	Number	Number
Weighted average number of ordinary shares used in calculating earnings per share	87,730,404	73,225,709

Note 13. Events after the reporting period

On 1 July 2021, ELMO entered into a forward contract to buy £4.4 million with a maturity date of 30 September 2021 to economically hedge the FX exposure on contingent consideration payments as noted in the financial statements.

COVID-19 has not substantially impacted the operations of the Group and its core operations and is not likely to compromise the ability of the Group to continue operating for the foreseeable future. However, the extent of the future impact of COVID-19 on the Group's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak locally and globally, the impact of protracted lockdowns and other regulations imposed by governments with respect to further outbreak and the resulting impact on customers, employees and vendors all of which are uncertain and cannot be predicted at this time.

Other than stated above, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.