

ELMO Software Limited
Appendix 4D
For the half-year year ended 31 December 2019

Company details

Name of entity:	ELMO Software Limited
ABN:	13 102 455 087
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	34% to	23,646
Loss from ordinary activities after tax attributable to the owners of ELMO Software Limited	up	18% to	(8,504)
Loss for the half-year attributable to the owners of ELMO Software Limited	up	18% to	(8,504)

Dividends

No dividend was paid or proposed during the half-year ended 31 December 2019 (2018: \$nil).

Refer to the Operating and Financial Review included within the Directors' Report for further commentary on the half-year's results, financial position and likely developments in future years.

Net tangible assets

	Reporting period Cents	Previous period Cents (Restated)
Net tangible assets per ordinary security	<u>71.17</u>	<u>36.84</u>

The net tangible asset per ordinary security is calculated based on 74,930,726 ordinary shares on issue at 31 December 2019 and 63,201,187 shares that were in existence at 31 December 2018. Following the adoption of AASB 16, Leases, net tangible assets includes the right-of-use assets in the above calculation.

Control gained over entities: Investment in jointly controlled entity

ELMO gained joint control over Hero Brands Pty Limited on 13 December 2019.

Loss of control over entities

Not applicable.

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Other information requiring disclosure to comply with ASX listing rule 4.2A.3 is contained in, and should be read in conjunction with the Financial Statements, the notes to the Financial Statements and the Directors' Report for the half-year ended 31 December 2019 attached to this report.

This report is based on the Consolidated Financial Statements and Notes of ELMO Software Limited which have been reviewed by Deloitte Touche Tohmatsu.

Signed



Barry Lewin
Chairman



Danny Lessem
Director

12 February 2020
Sydney

ELMO Software Limited

ABN 13 102 455 087

**Interim financial statements for the half-year ended
31 December 2019**

ELMO Software Limited
Directors' report
For the half-year ended 31 December 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of ELMO Software Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of ELMO Software Limited during the half-financial year and up to the date of this report, unless otherwise stated:

Barry Lewin
Danny Isaac Lessem
Catherine Jane Hill
Leah Graeve

Dividends

No dividend was paid during the half-year ended 31 December 2019 (2018: \$nil).

Operating and financial review

Principal activities

ELMO is one of Australia and New Zealand's leading providers of Software-as-a-Service (SaaS), cloud-based human resources and payroll solutions.

ELMO's human resources and payroll management software solutions enable organisations to manage the lifecycle of an employee from hire to retire on a single integrated platform. The Company develops, sells and implements a range of modular software applications to efficiently manage human resource (HR) and payroll related processes including recruitment, onboarding, performance management, learning and development, rewards and recognition, remuneration, succession planning, payroll, onboarding, workplace rostering, time and attendance.

ELMO also provides HR Core, a software module which organisations use for people management and employee self-service, and HR Survey for internal staff and external customer surveys. 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.

Significant changes to the business

Capital Raise

On 18 September 2019, ELMO successfully completed a \$55m institutional placement and \$15m share purchase plan. The proceeds from the placement and share purchase plan are being invested across sales and marketing, research and development and client services functions within ELMO to take advantage of the large market opportunity and expansion in its addressable market.

Additionally, the funds are being used to execute strategic acquisition opportunities to either expand the product offering or to acquire customer lists that provide module cross-sell opportunities.

Joint Venture Investment – Hero Brands

On 13 December 2019, ELMO invested in Hero Brands Pty Limited, a software development house headquartered in Melbourne with offshore operations in Eastern Europe.

The investment provides ELMO with increased research and development capacity and capability. The investment consisted of a \$1.18m injection of capital in exchange for 50% equity ownership. An additional contingent payment of \$0.5m is payable based on meeting set performance criteria.

ELMO Software Limited
Directors' report
For the half-year ended 31 December 2019

Review of operations during the half year

Certain financial information in the review of operations section below referencing Statutory Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) has been derived from the reviewed financial statements. The Annual Recurring Revenue (ARR), pro forma EBITDA and pro forma operating expenses are non-IFRS financial information and as such has not been reviewed in accordance with Australian Accounting Standards.

Annual recurring revenue, which reflects the revenue run-rate at a point in time and is considered a key leading metric for prospective revenue, increased to \$52.0m at 31 December 2019 (31 December 2018: \$36.4m). Growth in the ARR was primarily driven by a combination of:

- New customers to ELMO;
- The cross-sell of existing modules to existing ELMO customers; and
- Contribution from the acquisitions of HRonboard and BoxSuite.

Revenue

For the half-year ended 31 December 2019 (1H20), ELMO reported statutory revenue of \$23.6m (half-year ended 31 December 2018 (1H19): \$17.7m) an increase of 33.9% from 1H19.

The growth in revenue during the period was driven by:

- Increased investment into the sales and marketing team driving the expansion of ELMO's customer base to 1,478 organisations, an increase of 30.9% compared to 1,129 at 31 December 2018;
- Increased investment and traction in new and existing modules, resulting in increased cross-sell and upsell opportunities amongst ELMO's customer base;
- High customer retention rate of 92.9%;
- The contribution from acquisitions completed during FY19; and
- Enhanced brand awareness and reputation of ELMO and its product offering.

ELMO Software Limited
Directors' report
For the half-year ended 31 December 2019

EBITDA

EBITDA reflects ELMO's revenues less operating expenses, excluding depreciation and amortisation. For 1H20 ELMO's loss before income tax, finance expenses, depreciation and amortisation was \$2.6m (1H19: loss \$2.0m).

For 1H20, ELMO reported operating expenses (including cost of sales and excluding depreciation and amortisation) of \$26.2m (1H19: \$19.7m restated¹). The key driver for the increase in operating expenses was ELMO's continued investment in resources to underpin future growth. There was increased investment into:

- Capacity in client services which increased cost of sales to \$3.7m (1H19: \$2.6m). The increased investment was focussed on supporting the increase in activity covering implementation, integration and training;
- ELMO's sales and marketing function which reported expenses of \$11.2m, reflecting a 41% increase compared to 1H19 due to an increase in headcount during the period;
- Increased investment in research and development, primarily the development of new modules and enhancement of existing modules. Research and development spend totalled \$10.6m through 1H20 (1H19: \$4.9m). The total spend in FY19 was split between operating expenses of \$2.9m and capitalised expenses of \$7.7m (1H19: \$1.4m, \$3.5m); and
- An increase in general and administrative expenses to \$8.5m (1H19: \$7.6m) driven by an increase in employment and operating costs due to strengthening of ELMO's infrastructure to scale operations.

Pro forma EBITDA

For 1H20, ELMO incurred expenses which are considered one off or non-recurring in nature. The pro forma EBITDA reflects ELMO's statutory EBITDA adjusted for:

- Costs associated with the institutional placement and share purchase plan;
- Acquisition related costs; and
- Other non-recurring items.

A reconciliation between EBITDA based on the statutory accounts and pro forma EBITDA is provided below.

Reconciliation of EBITDA	Half-year ended 31 December 2019 \$m	Half-year ended 31 December 2018 \$m
EBITDA based on statutory accounts	(2.6)	(2.0)
<i>Add net effects of:</i>		
Impact of acquisitions	-	0.4
Transaction-related costs	0.3	0.4
Other non-recurring items	0.4	-
Pro forma EBITDA	(1.9)	(1.2)

¹ 31 December 2018 comparative results have been re-stated to reflect the adoption of *AASB16 Leases*. The 31 December 2019 and 31 December 2018 results are on a like for like basis.

ELMO Software Limited
Directors' report
For the half-year ended 31 December 2019

Financial position

As at 31 December 2019, ELMO has no debt and a net cash balance of \$78.1m (30 June 2018: \$27.7m). The primary increase in the cash balance was from the institutional placement and share purchase plan which contributed \$67.8m net of issue costs.

As a result of the above, the Directors believe the consolidated entity is in a strong and stable position to expand and grow its current operations

Business growth strategy and likely developments

- **Greater usage from existing customers**

ELMO aims to increase usage of its solutions amongst the existing customer base by encouraging customers to subscribe to additional modules. ELMO plans to support this via further investment into sales and marketing and broadening its human resources software offering.

- **Increasing market penetration in Australia and New Zealand**

ELMO currently has a market penetration of 6.2%, reflecting the ratio of 1,478 active customers from a total market of 23,813 organisations², across Australia and New Zealand. ELMO plans to accelerate its market penetration across Australia and New Zealand by increasing investment into its sales and marketing capabilities and initiatives to drive new customer wins.

- **Expand product offering**

ELMO continues to commit to investment in research and development with the total spend in HY20 reflecting 44.9% (1H19: 27.9%) of statutory revenue. Key development plans include the continuous enhancement of the user experience and user interface, continued integration of previous acquisitions and further development of the interoperability of the module suite.

ELMO recently invested into Hero Brands a software development house. The investment provides ELMO with increased research and development capacity and capability which is expected to accelerate time to market for product enhancements and increased functionality.

- **Acquisitions and investments**

ELMO believes that there is an opportunity to gain additional market share and/or acquire complementary technology through targeted acquisitions of other HR management software companies.

Matters subsequent to the end of the financial year

On 12 February 2020 ELMO announced the acquisition of 100% of the share capital of the Vocam Group, a leading provider of HR and safety e-learning video content for consideration of \$3.5m. Vocam has operations in Australia and the United Kingdom.

No other matter or circumstance has arisen since 31 December 2019 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.

² Frost & Sullivan independent market report 2019.

ELMO Software Limited
Directors' report
For the half-year ended 31 December 2019

Rounding off amounts

The company 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, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors.

On behalf of the directors



Barry Lewin
Chairman



Danny Lessem
Director

12 February 2020
Sydney

12 February 2020

The Board of Directors
Elmo Software Limited
Level 27, 580 George Street
Sydney NSW 2000

Dear Board Members

Elmo Software Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Elmo Software Limited.

As lead audit partner for the review of the financial statements of Elmo Software Limited for the financial year half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner
Chartered Accountants

ELMO Software Limited
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For the half-year ended 31 December 2019

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General information

The financial statements cover ELMO Software Limited as a consolidated entity consisting of ELMO Software Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is ELMO Software Limited's functional and presentation currency.

ELMO Software Limited is a company limited by shares.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 12 February 2020. The directors have the power to amend and reissue the financial statements.

ELMO Software Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

		Consolidated	
	Note	31 December 2019 \$'000	31 December 2018 \$'000 (restated)*
Revenue	3	23,646	17,657
Cost of sales		<u>(3,652)</u>	<u>(2,631)</u>
Gross profit		19,994	15,026
Other income		17	40
Sales and marketing expenses		(11,242)	(7,974)
Research and development expenses		(2,865)	(1,433)
General and administrative expenses		(7,954)	(7,338)
Depreciation and amortisation expense		(6,877)	(4,349)
Impairment loss on trade receivables		(564)	(301)
Net gain on derecognition of financial assets measured at cost		-	98
Finance income		386	472
Finance costs		<u>(358)</u>	<u>(390)</u>
Loss before income tax benefit/(expense)		(9,463)	(6,149)
Income tax benefit/(expense)		<u>959</u>	<u>(1,029)</u>
Loss after income tax benefit/(expense) for the half-year attributable to the owners of ELMO Software Limited		<u>(8,504)</u>	<u>(7,178)</u>
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to the owners of ELMO Software Limited		<u>(8,504)</u>	<u>(7,178)</u>
Earnings per share		Cents	Cents
Basic earnings	11	(12.30)	(11.36)
Diluted earnings	11	(12.30)	(11.36)

* The comparatives relating to the half-year ended 31 December 2018 have been restated to incorporate the impact of AASB 16, *Leases*, early adopted during the year ended 30 June 2019 (see note 1).

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

ELMO Software Limited
Statement of financial position
As at 31 December 2019

		Consolidated	
	Note	31 December 2019 \$'000	30 June 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		78,139	27,698
Trade and other receivables		8,513	9,540
Other current assets		1,172	533
Finance lease receivable		196	186
Total current assets		<u>88,020</u>	<u>37,957</u>
Non-current assets			
Investment in jointly controlled entity	5	1,680	-
Property, plant and equipment		4,699	4,249
Intangible assets and capitalised costs	4	62,912	58,860
Right-of-use assets		7,386	8,173
Finance lease receivable		188	289
Total non-current assets		<u>76,865</u>	<u>71,571</u>
Total assets		<u>164,885</u>	<u>109,528</u>
Liabilities			
Current liabilities			
Trade and other payables		5,937	7,286
Deferred and contingent consideration		6,118	3,953
Lease liabilities		2,894	2,632
Employee benefits		2,348	1,939
Current tax liabilities		182	71
Contract liabilities		20,727	19,910
Total current liabilities		<u>38,206</u>	<u>35,791</u>
Non-current liabilities			
Deferred and contingent consideration		500	5,500
Lease liabilities		8,068	9,309
Employee benefits		323	172
Deferred tax		1,158	2,977
Contract liabilities		393	382
Total non-current liabilities		<u>10,442</u>	<u>18,340</u>
Total liabilities		<u>48,648</u>	<u>54,131</u>
Net assets		<u>116,237</u>	<u>55,397</u>
Equity			
Share capital	6	141,344	72,733
Reserves	6	1,569	836
Accumulated losses	7	(26,676)	(18,172)
Equity attributable to the owners of ELMO Software Limited		<u>116,237</u>	<u>55,397</u>
Total equity		<u>116,237</u>	<u>55,397</u>

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

ELMO Software Limited
Statement of changes in equity
For the half-year ended 31 December 2019

Consolidated	Issued Capital \$'000	Foreign currency translation reserves \$'000	Share option reserves \$'000	Accumulated Losses \$'000 (restated)	Total equity \$'000
Balance at 1 July 2018	72,340	(47)	205	(4,286)	68,212
AASB 15 adjustment, net of tax	-	-	-	(736)	(736)
AASB 16 adjustment, net of tax	-	-	-	30	30
Adjusted balance at 1 July 2018	<u>72,340</u>	<u>(47)</u>	<u>205</u>	<u>(4,992)</u>	<u>67,506</u>
Loss after income tax benefit for the half-year	-	-	-	(7,178)	(7,178)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(7,178)	(7,178)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares under business combinations – deferred consideration from acquisition in the prior period	228	-	-	-	228
<i>Reserves:</i>					
Translation movement during the half-year	-	95	-	-	95
Equity settled share-based payment	-	-	220	-	220
Balance at 31 December 2018	<u>72,568</u>	<u>48</u>	<u>425</u>	<u>(12,170)</u>	<u>60,871</u>
Consolidated	Issued Capital \$'000	Foreign currency translation 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 half-year	-	-	-	(8,504)	(8,504)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(8,504)	(8,504)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued under institutional placement	55,000	-	-	-	55,000
Shares issued under share purchase plan	15,004	-	-	-	15,004
Exercise of unlisted options	103	-	-	-	103
Less: share placement costs (net of tax)	(1,496)	-	-	-	(1,496)
<i>Reserves:</i>					
Translation movement during the half-year	-	174	-	-	174
Equity settled share-based payment	-	-	559	-	559
Balance at 31 December 2019	<u>141,344</u>	<u>179</u>	<u>1,390</u>	<u>(26,676)</u>	<u>116,237</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

ELMO Software Limited
Statement of cash flows
For the half-year ended 31 December 2019

Note	Consolidated	
	31 December 2019 \$'000	31 December 2018 \$'000 (restated)
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	27,392	20,270
Payments to suppliers and employees (inclusive of GST)	<u>(28,962)</u>	<u>(20,803)</u>
	(1,570)	(533)
Income taxes (paid)/refunded	<u>(89)</u>	<u>28</u>
Net cash used in operating activities	<u>(1,659)</u>	<u>(505)</u>
Cash flows from investing activities		
Interest received	373	463
Receipt of lease incentive	-	1,291
Payment of transaction costs for acquisitions	(298)	(213)
Payment for investment in jointly controlled entity	(1,180)	-
Payment of deferred consideration from acquisitions in the prior period	(3,335)	(2,466)
Payments for property, plant and equipment	(1,137)	(450)
Payments for intangibles	<u>(8,932)</u>	<u>(3,977)</u>
Net cash used in investing activities	<u>(14,509)</u>	<u>(5,352)</u>
Cash flows from financing activities		
Proceeds from issue of shares	70,004	-
Proceeds from exercise of share options	41	-
Share issue transaction costs	(2,204)	-
Repayment of lease liabilities	<u>(1,232)</u>	<u>(1,191)</u>
Net cash generated from/(used in) financing activities	66,609	(1,191)
Net increase/(decrease) in cash and cash equivalents	50,441	(7,048)
Cash and cash equivalents at the beginning of the half-year	<u>27,698</u>	<u>45,995</u>
Cash and cash equivalents at the end of the half- year	<u><u>78,139</u></u>	<u><u>38,947</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting', as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The financial statements have been prepared on the basis of historical cost with cost based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise instructed.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the Directors' report and financial statements for the year ended 30 June 2019.

The principal accounting policies adopted are consistent with those of the consolidated financial statements as at and for the year ended 30 June 2019, unless otherwise stated.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

Restatement to prior year comparatives

The financial statements for the half-year ended 31 December 2018 were prepared and lodged in accordance with AASB 117 *Leases*, as the relevant leasing standard applicable at this time.

However, in the second half-year of the financial year ended 30 June 2019 Elmo's project to assess the impact of AASB 16 *Leases* (the accounting standard replacing AASB 117) was concluded. Management decided to early adopt AASB 16 in May 2019 with the effect being that AASB 16 was applied for the full financial year ended 30 June 2019. A modified retrospective transition approach was applied with the transition effective from 1 July 2018.

Therefore there is a timing difference between the results announced for the half-year ended 31 December 2018 and the application of AASB 16.

The Income Statement for the half-year ended 31 December 2018 has therefore been restated to be consistent with the results for the year ended 30 June 2019 as accounted in accordance with AASB 16 *Leases*. Loss after income tax expense/benefit for the half-year attributable to the owners of ELMO Software Limited has reduced by \$44,000 as a consequence of the restatement.

The annual report for the year ended 30 June 2019 details the change in accounting policy and impact upon transition.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to ELMO. ELMO controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

ELMO measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously held equity interest in the acquiree and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that ELMO incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent considerations are recognised in profit or loss.

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 1. Significant accounting policies (continued)

Basis of consolidation (continued)

Interests in equity-accounted investees

The Group's interest in equity-accounted investees comprises an interest in a jointly controlled investment. A jointly controlled investment is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than the rights to its assets and obligations for its liabilities.

The interest in the jointly controlled invested is accounted for using the equity accounting method. The interest is initially recognised at cost; subsequent to initial recognition, the consolidated financial statements include the Group's share of profit or loss and OCI of the equity-accounted investment until the date on which joint control ceases.

Revenue recognition from contracts with customers

The group has two primary revenue streams:

- Software solution services; and
- Professional services

(i) Identification of distinct elements and separate performance obligations

Software solution services

In the case where the customer contract includes a license and additional integration services provided including implementation and training ("software solution services") the assessment has been performed as to whether a separate performance obligation exists for each element. These additional services provided with the licence are not distinct or separately identifiable and therefore the contract includes only one performance obligation under AASB 15.

Professional services

These services can be provided at any point during the life of the licence contract and are therefore classified as a separate performance obligation.

(ii) Revenue recognition under AASB 15

Following the adoption of AASB 15 in the prior year, the Group now recognises revenue from the following major sources under AASB 15 as below:

Revenue Stream	Performance Obligation	Timing of Recognition
"Software solution services" - software licences, implementation and integration services	Access to software	Over the life of the contract as the customer simultaneously receives and consumes the benefits of accessing the software
Professional services	As defined in the contract but typically at completion of the service	Recognised over time, but because time delivered is minimal, point in time recognition has been applied.

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 1. Significant accounting policies (continued)

Leases

General impact of application of AASB 16 Leases

In the prior year, the Group, for the first time, applied AASB 16 *Leases* in advance of its effective date with the date of initial application of AASB 16 for the Group being 1 July 2018.

AASB 16 introduced new requirements with respect to lease accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases except for short-term leases, being those less than 12 months, and leases of low-value assets.

Impact of the definition of a new lease

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has applied this definition to all lease contracts currently held.

Lessee accounting

For all contracts determined to constitute a lease, right-of-use assets and lease liabilities are recognised in the consolidated statement of financial position, initially measured at the present value of future lease payments. When measuring lease liabilities, the Group discounted lease payments using the interest rate implicit in the lease contract, being 6%.

Right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of assets*. Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities.

Depreciation is expensed on right-of-use assets and interest on lease liabilities, both recognised in the consolidated statement of profit or loss.

For presentation purposes, the total amount of cash paid in relation to leases is separated into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Cash flow statement.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis. This expense is presented within other expenses in the consolidated statement of profit or loss.

Lessor accounting

The Group assesses the classification of the sub-lease commenced during the financial year with reference to the right-of-use asset, not the underlying asset. Upon commencement of a sub-lease the right-of-use asset held by the Group as the intermediate lessor is derecognised, recognising a lease receivable being the present value of sub-lease payments to be received with any gain or loss being recognised in the profit or loss.

Intangible assets

(i) Recognition and measurement

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment.

The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 1. Significant accounting policies (continued)

Intangible assets (continued)

(i) Recognition and measurement (continued)

Software development costs - Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

Capitalised sales commission costs

Commission costs are those amounts paid to business development employees as remuneration for securing new contracts based on a discretionary fixed percentage of revenue.

Customer lists

Upon acquisition of a new business, customer lists which are acquired including active revenue contracts are amortised over management's best estimate of their useful life.

Trademark

The trademark is treated as having an indefinite useful life because it is expected to contribute to net cash flows indefinitely and thus the trademark is not amortised until its useful life is determined to be finite. It will be tested for impairment annually and whenever there is an indication that it may be impaired.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits of the specific asset to which it relates. All other expenditure including any expenditure for internally generated goodwill or brands is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of the intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill and trademarks are not amortised.

The estimated useful lives for current and comparative periods are as follows:

Software development costs	3 years
Capitalised sales commission costs	3 years
Customer lists	7-10 years

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Share-based payment reserve

The share-based payment reserve represents the value of unvested shares and unissued shares as part of the share-based payment scheme. As the shares vest they will be transferred to share capital.

Rounding off amounts

The company 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, or in certain cases, the nearest dollar.

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.

Business combinations

As discussed in note 1, 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 is 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.

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.

Note 3. Revenue from contracts with customers

Identification of reportable operating segments

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM) in assessing performance and in determining the allocation of resources. As a result, the operating segment information is disclosed in the statements and notes to the financial statements.

<i>Geographical information</i>	Revenue from external customers		Geographical non-current assets	
	31 December 2019	31 December 2018	31 December 2019	30 June 2019
	\$'000	\$'000	\$'000	\$'000
Australia	21,569	16,266	61,828	58,024
New Zealand	2,028	1,280	13,169	13,258
Singapore	49	111	-	-
	<u>23,646</u>	<u>17,657</u>	<u>74,997</u>	<u>71,282</u>

The majority of the Group's revenue is generated from sales contracts with Australian, Singapore and New Zealand companies. The geographic split of this revenue across all companies is: a) Australia (88.10%, 2018: 88.26%); b) New Zealand (10.60%, 2018: 9.70%); c) Singapore (0.20%, 2018: 0.53%); d) other (1.10%, 2018: 1.51%).

All the non-current assets are allocated to reportable segments with the exception of investments in associates (\$1.7m) and finance lease receivables (\$0.2m). Goodwill and other intangible assets have been allocated to reportable segments as described in note 4.

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 3. Revenue from contracts with customers (continued)

Timing of revenue recognition

	Consolidated	
	31 December 2019 \$'000	31 December 2018 \$'000
Products and services transferred over time	23,015	17,164
Products and services transferred at a point in time	631	493
	<u>23,646</u>	<u>17,657</u>

Note 4. Intangibles

	Consolidated	
	31 December 2019 \$'000	30 June 2019 \$'000
Software development costs	32,559	24,712
Less: Accumulated amortisation	(15,154)	(11,099)
	<u>17,405</u>	<u>13,613</u>
Capitalised sales commission costs	4,669	3,490
Less: Accumulated amortisation	(2,497)	(2,089)
	<u>2,172</u>	<u>1,401</u>
Customer list (acquired through business combinations)	8,816	8,816
Less: Accumulated amortisation	(2,193)	(1,600)
	<u>6,623</u>	<u>7,216</u>
Goodwill (acquired through business combinations)	36,133	36,051
Trademark (acquired through business combinations)	579	579
	<u>62,912</u>	<u>58,860</u>

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 4. Intangibles (continued)

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 \$'000	Capitalised Commission costs \$'000	Customer list \$'000	Goodwill \$'000	Trademarks \$'000	Total \$'000
Consolidated						
Balance at 1 July 2018	6,973	750	6,470	21,380	242	35,815
Additions	8,283	1,148	-	2	-	9,433
Additions through business combinations	2,759	-	1,821	14,669	337	19,586
Amortisation expense	(4,466)	(501)	(1,075)	-	-	(6,042)
Effects of movements in exchange rates	64	4	-	-	-	68
Balance at 30 June 2019	<u>13,613</u>	<u>1,401</u>	<u>7,216</u>	<u>36,051</u>	<u>579</u>	<u>58,860</u>
Additions	7,759	1,173	-	-	-	8,932
Amortisation expense	(4,028)	(404)	(592)	-	-	(5,024)
Effects of movements in exchange rates	61	2	(1)	82	-	144
Balance at 31 December 2019	<u><u>17,405</u></u>	<u><u>2,172</u></u>	<u><u>6,623</u></u>	<u><u>36,133</u></u>	<u><u>579</u></u>	<u><u>62,912</u></u>

An impairment loss, if any, is recognised for the amount by which the carrying amount exceeds its recoverable amount. As at 31 December 2019 there are no indicators to suggest that an impairment would occur.

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 5. Investment in jointly controlled entity

	Consolidated	
	31 December	30 June
	2019	2019
	\$'000	\$'000
Investment in jointly controlled entity	1,680	-
	<u>1,680</u>	<u>-</u>

On 13 December 2019, ELMO acquired joint control in Hero Brands Pty Ltd with a 50% ownership interest.

Hero Brands expands ELMO's research and development capacity and capability. ELMO's investment consists of a \$1.18m capital injection plus deferred contingent consideration of \$0.5m.

The following table summarises the financial information of Hero Brands Pty Ltd as included in its own financial statements:

	31 December
	2019
	\$'000
Current assets	1,340
Non-current assets	53
Current liabilities	(214)
Non-current liabilities	<u>(180)</u>
Net Assets	<u>999</u>

Note 6. Equity - share capital and reserves

Ordinary shares issued and fully paid	Shares	\$'000
At 1 July 2018	63,160,086	72,340
Shares issued under business combinations – deferred consideration from acquisition in the prior period	<u>72,373</u>	<u>393</u>
At 30 June 2019	<u>63,232,459</u>	<u>72,733</u>
Shares issued under institutional placement	9,166,667	55,000
Shares issued under share purchase plan	2,500,614	15,004
Exercise of unlisted share options	30,986	103
Less: Capitalised share placement costs (net of tax)	-	(1,496)
At 31 December 2019	<u>74,930,726</u>	<u>141,344</u>

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.

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 6. Equity - share capital and reserves (continued)

Nature and purpose of reserves

Reserves

	Consolidated	
	31 December	30 June
	2019	2019
	\$'000	\$'000
Foreign exchange translation reserve	179	5
Share options reserve	1,390	831
	<u>1,569</u>	<u>836</u>

Note 7. Equity - accumulated losses

	Consolidated	
	31 December	30 June
	2019	2019
	\$'000	\$'000
		(restated)
Accumulated losses at the beginning of the half-year	(18,172)	(12,170)
Loss after income tax benefit/expense for the half-year	(8,504)	(6,002)
Accumulated losses at the end of the half-year	<u>(26,676)</u>	<u>(18,172)</u>

Note 8. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous half-year.

Note 9. Deferred and contingent liabilities

The Group has recorded on the balance sheet deferred and contingent liabilities of \$6.6m relating to the contingent consideration on acquisitions from the prior year.

The Group has no other contingent liabilities, except for these acquisition related contingencies.

Note 10. Key management personnel

Remuneration arrangements for key management personnel are detailed in the annual report as at 30 June 2019 with the structure of the short-term incentive plan (STI Plan) and long-term incentive program (LTI Program) having been outlined in the Remuneration Report as at that date.

In addition for key management personnel during the half-year ended 31 December 2019, \$491,700 was accrued for the STI Plan (2018: \$412,400).

An expense has been recorded for the share options granted of \$178,715 in relation to key management personnel with a corresponding increase in the share-based payment reserve during the half-year ended 31 December 2019 (2018: \$103,596).

ELMO Software Limited
Notes to the financial statements
For the half-year ended 31 December 2019

Note 11. Earnings per share

	Consolidated	
	31 December 2019	31 December 2018
	\$'000	\$'000
Loss after income tax attributable to the owners	<u>(8,504)</u>	<u>(7,178)</u>
	Cents	Cents
Basic earnings (cents per share)	(12.30)	(11.36)
Diluted earnings (cents per share)	(12.30)	(11.36)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	69,135,641	63,166,564
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>69,135,641</u>	<u>63,166,564</u>

Note 12. Events after the reporting period

On 12 February 2020 ELMO announced the acquisition of 100% of the share capital of the Vocam Group, a leading provider of HR and safety e-learning video content for consideration of \$3.5m. Vocam has operations in Australia and the United Kingdom.

Other than disclosed above, there is no other matter or circumstance which has arisen since 31 December 2019 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.

ELMO Software Limited
Directors' declaration
For the half-year ended 31 December 2019

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of directors made pursuant to s303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Barry Lewin
Chairman



Danny Lessem
Director

12 February 2020
Sydney

Independent Auditor's Review Report to the Members of ELMO Software Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ELMO Software Limited, which comprises the condensed statement of financial position as at 31 December 2019, and the condensed statement of profit and loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matters that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of ELMO Software Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ELMO Software Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ELMO Software Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner
Chartered Accountants
Sydney, 12 February 2020