ELMO Software Limited
Appendix 4E
Preliminary final report

Company details

Name of entity:	ELMO Software Limited
ABN:	13 102 455 087
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

Results for announcement to the market

				$'000
Revenues from ordinary activities	up	25.0%	to	50,051
Loss from ordinary activities after tax attributable to the owners of ELMO Software Limited	up	41.2%	to	(18,616)
Loss for the year attributable to the owners of ELMO Software Limited	up	41.2%	to	(18,616)

Dividends
No dividend was paid or proposed during the financial year ended 30 June 2020 (2019: $nil).

The loss for the year amounted to $18.6m which is due to increased employee costs from additional hires to support the expanding business and related costs of acquisitions during the year. Refer to the Operating and Financial Review included within the Directors' Report for further commentary on the year's results, financial position and likely developments in future years.

Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets/(liabilities) per ordinary security	124.08	(5.48)

The net tangible asset per ordinary security is calculated based on 85,659,114 ordinary shares on issue at 30 June 2020 and 63,232,459 shares in existence at 30 June 2019.

For personal use only

ELMO Software Limited
Appendix 4E
Preliminary final report

Control gained over entities: Investment in jointly controlled entity

Entity	Hero Brands Pty Limited
Date control gained	13 December 2019

	$'000
Contribution of such entity's loss to the reporting entity's loss from ordinary activities before income tax during the period	(182)

Control gained over entities

Entities	Vocam Pty Limited Safety Business Learning Limited
Date control gained	27 February 2020

	$'000
Contribution of such entity's profit to the reporting entity's loss from ordinary activities before income tax during the period	137

Loss of control over entities

Not applicable.

Other information requiring disclosure to comply with ASX listing rule 4.3A 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 year ended 30 June 2020 attached to this report.

This report is based on the Consolidated Financial Statements and Notes of ELMO Software Limited which have been audited by Deloitte Touche Tohmatsu with an unqualified opinion issued.

Signed

Barry Lewin Chairman	Danny Lessem Director

6 August 2020
Sydney

For personal use only

ELMO Software Limited

ABN 13 102 455 087

Annual Report - 30 June 2020

For personal use only

ELMO Software Limited
Corporate directory
For the year ended 30 June 2020

Directors	Barry Lewin Danny Lessem Kate Hill Leah Graeve
Company secretaries	Anna Sandham James Haslam
Registered office	Level 12 680 George Street Sydney NSW 2000 Phone: 02 8280 7100
Principal place of business	Level 27 580 George Street Sydney NSW 2000 Phone: 02 8305 4600
Share register	Link Market Services Pty Limited Level 12 680 George Street Sydney NSW 2000 Phone: 02 8280 7100
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	Mills Oakley Level 7 151 Clarence Street Sydney NSW 2000
Stock exchange listing	ELMO Software Limited shares are listed on the Australian Securities Exchange (ASX code: ELO)
Website	www.ELMOsoftware.com.au
Corporate governance statement	http://investors.ELMOsoftware.com.au/Investors/?page=Corporate-Governance
Key dates	Closing date for the receipt of Director nominations: 19 August 2020 2020 Annual General Meeting: 8 October 2020

For personal use only

ELMO Software Limited
Directors' report
For the year ended 30 June 2020

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 'Group', 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

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

Barry Lewin
Danny Lessem
Kate Hill
Leah Graeve

Dividends
No dividend was paid during the financial year ended 30 June 2020 (2019: $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 (HR) and payroll 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 and payroll related processes including recruitment, onboarding, performance management, learning and development, video e-learning content, 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.

In April 2020 ELMO launched ELMO Connect a communications module. ELMO Connect enables customers to instant message and initiate conference calls all from the ELMO integrated HR & Payroll platform.

Significant changes to the business

Capital Raisings

During the year ELMO successfully completed the following capital raisings:

- On 18 September 2019, a $55 million institutional placement;
- On 17 October 2019, a $15 million share purchase plan;
- On 12 May 2020, a $70m institutional placement; and
- On 4 June 2020, a $2.8m 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. Acquisition opportunities are being targeted both in the Australian and New Zealand region (ANZ) and the United Kingdom (UK).

For personal use only

Investment in jointly controlled entity – 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.

Acquisition of Vocam

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

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.

Review of operations during the year

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

For the full year ended 30 June 2020, ELMO reported revenue of $50.1m (FY19: $40.1m). ELMO's loss before income tax, finance costs, depreciation and amortisation (excluding the amortisation of capitalised sales commissions) was $4.2m (FY19: loss of $2.5m). ELMO reported a statutory net loss after tax of $18.6m (FY19: loss $13.2m).

ARR, which reflects the revenue run rate at a point in time and is considered a key leading metric for prospective revenue, increased to $55.1m at 30 June 2020 (30 June 2019: $46.0m). Growth in ARR was driven by a combination of new contracts from both new and existing customers and the contribution from the acquisition of Vocam.

Total cash receipts from customers through FY20 totalled $57.5m reflecting a 27.6% increase compared to FY19 (FY19: 45.1m).

The impacts of COVID-19 on the revenue, EBITDA and financial position are outlined below.

Revenue

Despite the challenging operating environment stemming from COVID-19, ELMO has been able to deliver overall revenue growth of 25.0% in FY20 when compared to FY19. This growth highlights the resilience of the ELMO platform.

The growth in revenue during the period was driven by:

- Strong subscription revenues of 97.6% of total revenue;
- Expansion of ELMO's customer base to 1,682 organisations compared to 1,341 at 30 June 2019 (25.4% increase);
- Increased investment into ELMO's sales and marketing team; and
- Increased investment and traction in new and existing modules, resulting in increased cross-sell and upsell opportunities amongst ELMO's customer base.

The impact of COVID-19 on the FY20 revenues is reflected through:

- A deferral in the procurement decisions by customers which has had an impact in the rate of securing new customers and cross selling to existing customers;
- A decrease in customer retention to 90.2% (FY19: 92.1%). The decrease was driven by customer hardship.

As a result of COVID-19 the organic growth revenue growth rate (excluding acquisitions) declined to 24.7% in FY20 (FY19: 27.2%).

For personal use only

For personal use only

EBITDA

For FY20, ELMO reported operating expenses, excluding depreciation and amortisation, of $48.9m (FY19: $37.2m). 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:

- ELMO's sales and marketing function which reported expenses of $22.6m (FY19: $17.8m), reflecting a 27.0% increase compared to FY19 due to increased headcount during the year;
- Increased investment and capacity in client services (excluding the amortisation of capitalised sales commissions) up to $7.3m (FY19: $5.4m). The increased investment was focussed on supporting the increase in activity covering implementation, integration and training;
- Increased investment in research and development, primarily the development of new modules and enhancement of existing modules. Research and development spend totalled $23.6m through FY20 (FY19: $11.5m). The total spend in FY20 was split between operating expenses of $6.1m and capitalised expenses of $17.5m (FY19: $3.2m, $8.3m); and
- An increase in general and administrative expenses to $18.1m (FY19: $15.3m) driven by an increase in employment and operating costs due to strengthening of ELMO's infrastructure to scale operations.

The impact of COVID-19 on the FY20 EBITDA is reflected in:

- Receipt of government stimulus payments totalling $2.0m which is expected to conclude during FY21.
- An increase in the impairment loss on trade receivables to $2.1m (FY19: $0.9m) as a result of impacts on ELMO's customer base and an increase in provisioning for expected future losses; and
- A decrease in travel, accommodation and events expense in the period April to June 2020 due to travel restrictions offset by an increase in costs associated with Group wide remote working.

Financial position

As at 30 June 2020, ELMO has no debt and a net cash balance of $139.9m (FY19: $27.7m). The primary reason for the increase in the cash balance through FY20 was from the capital raisings in September 2019 and May 2020.

Due to the increased investment in research and development and increase in goodwill through acquisition, intangible assets have increased to $73.0m (2019: $58.9m).

The impact of COVID-19 on the financial position at 30 June 2020 is reflected in:

- An increase in the provision for the impairment of receivables to $2.5m (FY19: $1.5m); and
- The re-phasing of payments for customers that are significantly impacted by COVID-19.

The Directors believe the Group 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 talent management software offering.

- **Increasing market penetration in Australia and New Zealand**
  ELMO currently has a market penetration of circa 7% out of a total market of 23,813 organisations[1], across Australia and New Zealand. ELMO plans to accelerate its market penetration in the region by increasing investment into its sales and marketing capabilities and initiatives to drive new customer wins.

- **Expanding and enhancing product offering**
  ELMO recently acquired and integrated video e-learning content and developed a communications module. There is continuous development and deployment planned for new and enhanced features across both the newly acquired and existing modules with additional modules to be launched within the next few years.

[1] Frost & Sullivan independent market report 2019/2020

Business growth strategy and likely developments (continued)

- **Expanding and enhancing product offering (continued)**

  ELMO continues to commit to investment in research and development with the total spend in FY20 reflecting 47.1% (FY19: 28.8%) of statutory revenue. Key development plans include the continued enhancement of the user experience and user interface, continued integration of acquisitions and further development of the interoperability of the module suite.

- **Growth through acquisitions**
  ELMO believes there are opportunities to gain additional market share and/or acquire complementary technology through targeted acquisitions of other HR management software companies.

  ELMO's acquisition strategy expanded in FY20 from ANZ to include targeting opportunities in the UK to build and leverage an operational footprint.

Matters subsequent to the end of the financial year

Novel Coronavirus (COVID-19)

The Novel Coronavirus ('COVID-19') was declared a pandemic in March 2020 by the World Health Organisation ('WHO'). Subsequent to the end of the 30 June 2020 financial year, there continues to be considerable economic impacts in Australia and globally arising from the outbreak of COVID-19 and Government action to reduce the spread of the virus. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries have caused disruption to businesses and economic activity. The Group considers this to be a non-adjusting post balance date event.

COVID-19 has not substantially impacted the operations of the Group and its core operations. There has been some deferral in the procurement decisions by customers which has had an impact in the rate of securing new customers and cross selling to existing customers and some rephasing of payments by customers. At present, the Group continues to operate effectively with business as usual.

The Group has no external debt and as at 30 June 2020 had $139.9m of cash available to the Group. Management believe this is sufficient cash to absorb the effects of COVID-19 even if the related restrictions remain in force for an extended period of time.

The directors do not consider that the impact is likely to compromise the ability of the Group to continue operating for the foreseeable future. However, considerations on the economic impact resulting from COVID-19 have been included in the financial results for the year ended 30 June 2020 through the allowance for expected credit losses over receivables.

Other than in relation to COVID-19, no other matter or circumstance has arisen since 30 June 2020 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.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

For personal use only

Information on directors

Name:	Barry Lewin
Title:	Chairman and Independent Non-executive Director
Qualifications:	Bachelor of Commerce (B.Com) and Bachelor of Laws (LLB) from University of Cape Town, MBA, Swinburne University of Technology, Melbourne.
Experience and expertise:	Barry is the founder and Managing Director of Melbourne-based corporate advisory firm SLM Corporate Pty Limited, where he advises public and private companies on mergers, acquisitions, transaction structuring, debt and equity issues, business sales and all aspects of corporate governance. Prior to establishing SLM Corporate in 1999, Barry spent 12 years as an in-house counsel to a number of ASX-listed companies.
Other current directorships:	Non-Executive Chairman of Praemium Limited (ASX:PPS), Non-Executive Chairman of Quickfee Ltd (ASX:QFE).
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	15,000 fully paid ordinary shares
Interests in options:	None
Contractual rights to shares:	None

Name:	Danny Lessem
Title:	Chief Executive Officer, Executive Director and Co-Founder of ELMO
Qualifications:	Bachelor of Laws (LL.B) and Bachelor of Arts and Law from the University of Witwatersrand, South Africa
Experience and expertise:	Danny is responsible for leading the development and execution of the Group's long term strategy and delivering on growth objectives for the business. Danny also plays a key part in the day-to-day management of the Group's operations and has been critical to the success of ELMO, including the strategy underpinning the development of the Group's full suite of talent management software solutions.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	10,823,149 fully paid ordinary shares
Interests in options:	None
Contractual rights to shares:	None

For personal use only

Name:	Kate Hill
Title:	Independent Non-Executive Director, Chair of the Audit and Risk Committee
Qualifications:	Bachelor of Science – Honours, Mathematics and Statistics from the University of Bristol, England, a member of the Institute of Chartered Accountants in Australia and New Zealand, and a graduate of the Australian Institute of Company Directors.
Experience and expertise:	Kate has over 20 years' experience as a former audit partner with Deloitte Touche Tohmatsu, advising privately owned and small cap ASX listed clients. She has worked extensively in regulated environments including assisting with Initial Public Offerings, capital raising and general compliance, as well as operating in an audit environment.
Other current directorships:	Non-Executive Director of Countplus Limited (ASX: CUP), Chair of their Audit and Risk Committee and a member of the Acquisitions Committee. Non-Executive Chair of Seeing Machines Limited (AIM: SEE), a member of the Audit, Finance and Risk Committee and a member of the People and Culture Committee.
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit and Risk Committee and Member of the Nomination and Remuneration Committee
Interests in shares:	8,955 (includes 3,955 restricted shares acquired under the NED equity plan)
Interests in options:	None
Contractual rights to shares:	1,470 share rights under the NED equity plan

Name:	Leah Graeve
Title:	Independent Non-Executive Director, Chair of the Nomination and Remuneration Committee
Qualifications:	Bachelor of Arts and Law from Monash University and a graduate of the Australian Institute of Company Directors
Experience and expertise:	Leah is currently Global Lead Strategic Sourcing & Procurement at Afterpay Ltd and is also a Board Member of Rare Cancers Australia (not-for-profit). Leah has over 16 years experience as a successful commercial and contracts negotiator in a range of organisations and industries. She has held roles as Head of Procurement, IT & Digital at Qantas Airways, Senior Manager at Jetstar Airways, Legal Counsel at Engonet, IT Commercial Manager at BHP Limited and was a former Policy Advisor to the Animal Law Institute, a not-for-profit community legal centre.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Nomination and Remuneration Committee and member of the Audit and Risk Committee
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None

For personal use only

Chief Financial Officer
James Haslam has held the roles of Chief Financial Officer and Joint Company Secretary since 4 February 2019. James is a Chartered Accountant and fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). James has over 19 years in accounting and finance including 15 years professional services for KPMG and Deloitte, following which he founded and operated Financial Agility Consulting, specialising in financial analysis, due diligence, accounting, mergers and acquisitions, and capital markets advice, primarily, in recent years, based in the technology sector.

Company Secretary
Anna Sandham has held the role of Company Secretary since 1 May 2017. Anna is an experienced company secretary and governance professional with over 20 years' experience in various large and small, public and private, listed and unlisted companies. Anna has previously worked for companies including AMP Financial Services, Westpac Banking Corporation, BT Financial Group and NRMA Limited. Anna holds a Bachelor of Economics (University of Sydney) and a Graduate Diploma of Applied Corporate Governance (Governance Institute of Australia) and is a Chartered Secretary and a Fellow of the Governance Institute of Australia.

Meetings of directors
The number of directors' meetings (including meetings of the committees of directors) and number of meetings attended by each of the Directors of the Group during the year ended 30 June 2020 were:

	Board meeting		Audit and Risk Committee		Nomination and Remuneration Committee	
	A	**B**	**A**	**B**	**A**	**B**
Barry Lewin	14	14	-	-	5	5
Danny Lessem	14	14	4	4	-	-
Kate Hill	14	14	4	4	5	5
Leah Graeve	14	14	4	4	5	5

A – Number of meetings attended during the time the Director held the office during the year
B – Number of meetings held when the Director was eligible to attend during the year

Directors' interests

The relevant interest of each director and officer as KMP in the shares, options and rights over such instruments issued by the Group, at the date of this report is as follows:

Directors	Fully paid ordinary shares Number	Share options Number	Performance rights Number	Share rights Number
Danny Lessem	10,823,149	-	-	-
Barry Lewin	15,000	-	-	-
Kate Hill	8,955*	-	-	1,470
Leah Graeve	-	-	-	-
Officer				
James Haslam	8,500	24,614	15,567	-

* Includes 3,955 restricted shares under the NED equity plan

For personal use only

Shares under option *(see note 38 for further detail)*

Issuing entity	LTI Plan	Number of shares/rights under option	Class of shares	Exercise price of rights/options	Expiry date of options
Share options					
ELMO Software Limited	SEEP	284,689	Ordinary shares	$2.51	17 October 2027
ELMO Software Limited	SEEP	31,373	Ordinary shares	$2.51	7 December 2027
ELMO Software Limited	SEEP	209,709	Ordinary shares	$5.50	29 October 2028
ELMO Software Limited	SEEP	24,614	Ordinary shares	$5.50	27 March 2029
ELMO Software Limited	HPEP	72,465	Ordinary shares	$2.51	17 October 2027
ELMO Software Limited	HPEP	6,735	Ordinary shares	$2.51	11 December 2027
ELMO Software Limited	HPEP	22,260	Ordinary shares	$5.08	9 March 2028
ELMO Software Limited	HPEP	326,834	Ordinary shares	$5.50	5 November 2028
ELMO Software Limited	HPEP	7,885	Ordinary shares	$5.50	25 February 2029
Performance rights					
ELMO Software Limited	SEEP	72,504	Ordinary shares	$6.74	
ELMO Software Limited	HPEP	174,691*	Ordinary shares	$7.16*	

* The exact number of performance rights awarded under HPEP and the related share price will be fixed in August 2020. Upon vesting, the rights immediately convert to shares so no expiry date applies.

Indemnity and insurance of officers
The Group has indemnified the directors and executives of the Group for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid a premium in respect of a contract to insure the directors and executives of the Group against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

Proceedings on behalf of the Group
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

For personal use only

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 31 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 31 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Officers of the Group who are former partners of Deloitte Touche Tohmatsu
No officer of the Group was an audit partner of Deloitte Touche Tohmatsu, being the auditors during the financial year, at a time when the audit firm undertook an audit of the Group.

Rounding of amounts
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, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

Auditor
Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

For personal use only

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- Remuneration governance
- Key management personnel
- Human resource strategy and remuneration policy
- Remuneration payments and link between performance and reward
- Remuneration of key management personnel
- Key terms of employment contracts
- Long term incentive plan
- Key management personnel equity holdings

Remuneration governance

The Nomination and Remuneration Committee is responsible for reviewing the remuneration arrangements for its Directors and Executives and making recommendations to the Board. The Nomination and Remuneration Committee has two key functions:

- The purpose of the nomination function is to review and make recommendations to the Board with respect to identifying nominees for directorships and key executive appointments; considering the composition of the Board, ensuring that effective induction and education procedures exist for new Board appointees, key executives and senior management; ensuring that appropriate procedures exist to assess and review the performance of the Chairman, Non-executive Directors and senior executives. The responsibility for the Group's remuneration policy rests with the full Board notwithstanding the establishment of the Committee.
- The purpose of the remuneration function is to provide advice, recommendations and assistance to the Board in relation to the Group's remuneration policies and remuneration packages of senior executives, Executive Directors and Non-executive Directors.

Further information regarding the Committee's responsibilities is set out in the Nomination and Remuneration Committee Charter available at http://investors.elmosoftware.com.au/Investors/?page=Corporate-Governance.

For personal use only

Remuneration report (audited)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including all directors (Non-Executive and Executive) of the consolidated entity.

Changes in Executive KMP
As a representation of the operations within ELMO at an executive level there have been changes to the definition of executive roles and as a result the classification of Executive KMP has been reconsidered for the purposes of disclosure in the FY20 Remuneration Report.

Danny Lessem and James Haslam as CEO and CFO respectively, under the supervision of the Board of Directors, have overall authority and responsibility for decisions regarding future acquisitions and strategic direction of the Group. The KMP are supported by the Executive team who have responsibility for executing decisions taken by the KMP.

These changes to the Executive KMP took effect on 1 July 2019 and it is considered that these roles have authority and direct responsibility for planning, directing and controlling the activities of the consolidated entity.

Accordingly, for the year ended 30 June 2020 and since the end of the financial year KMP are as follows:

Executive KMP	
Danny Lessem	Chief Executive Officer
James Haslam	Chief Financial Officer and Joint Company Secretary

Human resource strategy and remuneration policy

The framework encourages executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to be based on market best practice for the delivery of reward. The Board of Directors (the Board) ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

Remuneration payments and link between performance and reward

ELMO's remuneration strategy is designed to assist ELMO to achieve its corporate objectives through appropriate fixed and performance-based remuneration as detailed below:

Executive KMP remuneration
The consolidated entity aims to reward Executive KMPs based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The Executive KMP remuneration and reward framework for the current year included:

- cash salary
- superannuation
- short-term incentive
- long-term incentive including share options and performance rights (LTI) although the CEO does not participate in the LTI due to his status as a founder and significant shareholder.

For personal use only

Remuneration report (audited)

The combination of these comprises the Executive KMP's total remuneration as detailed under 'Key terms of employment contracts'.

Fixed remuneration, consisting of base salary, fees and superannuation is reviewed annually by the Nomination and Remuneration Committee based on individual and business performance, the overall performance of the consolidated entity and comparable market remunerations.

Short term incentive plan (STI Plan)
ELMO has established a short term incentive plan under which employees may be provided with a cash bonus for achievement against objectives and key results (OKR's).

Participation in the STI Plan is determined at the discretion of the Board. OKR's to Executive KMP will generally relate to conditions that are within the control of the employee, for example group revenue and profit targets, strategic measures or other such conditions, including both quantitative and qualitative as ELMO may decide as relevant to the specific executive role. Subject to the discretion of the Board, the STI Plan has been structured based on the overall remuneration structure adopted by ELMO such that 60% of an employee's total package consists of fixed pay and 40% as performance pay, with the performance pay component divided such that 60% is based on short term performance and 40% of long term performance (excluding the CEO where only the STI element will apply for the performance pay). The quantum of any reward is determined by the Board. Amounts to be paid to employees under the STI Plan will typically be paid after the release of full financial year audited results, and in accordance with the annual review process.

Long-term incentive program (LTI Plan)
ELMO has both a Senior Executive Equity Plan (SEEP) and a High Performer Equity Plan (HPEP) as part of its LTI Plan for the year ended 30 June 2020. During the year Executive KMP (except the CEO) received awards granted in accordance with the SEEP only. ELMO will regularly assess the appropriateness of its incentive plans and may amend or replace, suspend or cease using the SEEP if considered appropriate by the Board.

The Senior Executive Equity Plan (SEEP)
Equity incentives under the SEEP were granted to employees (or such other person that the Board determines is eligible to participate) in respect of FY19 and FY20; with offers made at the discretion of the Board. Grants under the SEEP are made annually and are made to the Executive KMP (except the CEO) as the Board may determine from time to time. Any grants are made subject to the ASX Listing Rules, to the extent applicable. The terms of the incentives granted under this plan were determined by the Board at grant.

FY18 and FY19: Share options
The SEEP is intended to align the interests of the senior executives with Shareholders. Awards under the SEEP prior to FY20 were structured as an option to receive shares at a future date subject to the recipient paying the exercise price (SEEP Option) with the performance period commencing on 1 July of the year of grant and concluding on 30 June three years later.

FY20: Performance rights
From FY20 onward, to ensure alignment and retention of key executives as the Group matures, awards under the SEEP are issued as performance rights rather than share options. If the performance rights vest they will be automatically converted to shares; one share will be received for each performance right vested and no cash alternative.

For personal use only

Remuneration report (audited)

The following table details the fixed, variable, short and long term incentives in relation to executive remuneration and the link to the Group's performance.

Component	Performance measures	Strategic objective/Performance link
Fixed remuneration	The position description of each Executive KMP includes a set of individual performance measures which are reviewed and evaluated each financial year. Remuneration is set competitively in order to: • Recruit: Attract the best talent to ELMO to ensure sustainable growth • Retain: Ensure talent is not poached by larger technology organisations or direct competitors.	Each Executive KMP's individual performance measures is specifically designed to ensure alignment with the Group's strategic plans for the year. Fixed remuneration is based on: • Role and responsibility • Capability and competencies • Comparable market remunerations
Performance-based remuneration (STI's and LTI's) ELMO's performance pay consists of short and long-term incentives which are designed to: • Motivate: to achieve financial and non-financial corporate objectives • Reward: create performance culture that recognises and rewards outstanding performance • Retain: through the Senior Executive Equity Plan (SEEP) and the subsequent tenure required for options and rights to vest		
Short-term incentive plan (STI) being cash award	The personal OKR's of each Executive KMP relate to conditions that are within the control of the employee including quantitative and qualitative targets, strategic initiatives and such other conditions as the Group requires. STI's are cash-based payments • Quantum of STI = % of performance relative to an individual's OKR's.	Ensures each Executive KMP is held accountable for the outcomes that are under his control. These outcomes are designed to support the overall Group objectives. STI's motivate individuals, create a high-performance culture and increase employee engagement.
Long-term incentive plan (LTI) under the (SEEP)	*Share options* Participants must be employed on vesting date for the options to vest. Performance will be tested at the end of each vesting period (years 1, 2, and 3) to determine the extent to which the Group has satisfied the Total Shareholder Return (TSR) performance condition. Vesting against this target will apply if the following is met: • 100% of the Options will vest if the Group ranks at or above the 75th percentile; • Straight line vesting will occur if the Group ranks between the 50th percentile and the 75th percentile; • 65% of the Options will vest if the Group ranks at the 50th percentile; • 0% of the Options will vest if the Group ranks below the 50th percentile. Performance will be tested relative to a peer group comprising the constituent companies of the S&P/ASX 300 excluding mining and energy companies.	Ensures a direct link between the performance of the Executive KMP and their departments with the creation of shareholder value.

For personal use only

Remuneration report (audited)

Long-term incentive plan (LTI) under the (SEEP)	*Performance Rights* The performance rights will vest in three tranches over a three-year period from the grant date in the following proportions: • Year 1 – 20% • Year 2 – 30% • Year 3 – 50% Performance will be tested as to 50% against relative TSR (RTSR Hurdle), 50% material achievement of Group guidance and continued employment. The TSR of each Group will be measured from the start of the performance period to the end of the performance period with the following vesting proportions applying: *Group's RTSR percentile rank against comparator group* — *Vesting percentage* Less than 50th — Nil At 50th — 65% Between 50th to 75th — 66-99% on a straight-line basis At or above 75th — 100%	

For FY20 the STI's were based on quantitative and qualitative performance measures for each Executive KMP with individual performance reviews conducted at the end of the year.

ELMO is committed to continually evolving the OKR's for Executives KMP's ensuring meaningful shareholder value aligned targets on which to be assessed.

In considering the Group's performance and benefits for shareholder wealth, the Nomination and Remuneration Committee have regard to the following indices in respect of the current financial year and the previous three financial years since IPO.

	FY20	FY19	FY18	FY17
ARR ($'m)	55.1	46.0	31.1	19.1
Revenue ($'m)	50.1	40.1	26.5	16.6
Revenue growth (%)	25.0	51.3	60.0	36.0
Closing share price ($)	7.16	7.29	5.50	2.50

No dividends have been paid in the financial years disclosed above.

For personal use only

Remuneration report (audited)

Non-Executive Directors' remuneration
Each of the Non-Executive Directors has entered into appointment letters with ELMO, confirming the terms of their appointment and their roles and responsibilities.

Under the Constitution, the Board decides the total amount paid to each of the Non-Executive Directors as remuneration for their services as a Director, guided by remuneration benchmarking. However, under the ASX Listing Rules, the total amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Group in general meeting.

This amount has been fixed by the Group at $750,000 per annum (inclusive of superannuation). Any change to that aggregated annual sum needs to be approved by the Shareholders. The aggregate sum does not include any remuneration for special exertions and additional services performed by a Non-Executive Director in addition to their agreed roles. Any additional fees will be approved by the Board when determined to be appropriate.

Non-Executive Directors may also be reimbursed for expenses properly incurred by the Non-Executive Directors in connection with the affairs of the Group including travel and other expenses in attending to the Group's affairs. The Non-Executive Directors' fees do not include a commission on, or a percentage of, profits or income.

The Non-Executive Directors do not receive performance-related compensation, and there are no contractual redundancy or retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

There is however a Non-Executive Director (NED) equity plan in place under which a Non-Executive Director may choose to sacrifice some or all of their salary in share rights (non-performance). The share rights vest on the first business day of the financial quarter beginning after each grant date. Upon vesting, restricted shares will be allocated subject to the restriction period being the earlier of 15 years or upon cessation as a Non-Executive Director.

Chair and independent Non-Executive Director, Barry Lewin's annual directors' fee was $150,000.

Kate Hill's annual fee was $100,000 per annum for her role as a Non-Executive director, Chair of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee. In accordance with the rules of the NED equity plan Kate salary sacrifices 25% of her salary to be transferred into the equity plan from which the share rights are purchased and valued appropriately using the 10 day VWAP at the point of issue of share rights.

Leah Graeve's annual fee was $100,000 per annum (inclusive of superannuation) for her role as a Non-Executive director, Chair of the Nomination and Remuneration Committee and a member of the Audit and Risk Committee.

For personal use only

Remuneration report (audited)

Remuneration of key management personnel

The following tables below detail remuneration of key management personnel based on the policies previously discussed for the years ended 30 June 2020 and 30 June 2019.

Year ended 30 June 2020

	Cash salary and fees $	Fees sacrificed under NED equity plan $	STI *(ii)* $	LTI *(iii)* $	Super-annuation $	Annual leave $	Long service leave $	Total $
Non-executive Directors:								
Barry Lewin (Chairman)	150,000	-	-	-	-	-	-	150,000
Kate Hill *(i)*	73,303	26,697	-	-	-	-	-	100,000
Leah Graeve	90,500	-	-	-	9,500	-	-	100,000
Executive KMP:								
Danny Lessem	690,000	-	465,000	-	25,000	22,369	14,384	1,216,753
James Haslam	371,000	-	158,400	60,860	25,000	24,189	-	639,449
	1,374,803	26,697	623,400	60,860	59,500	46,558	14,384	2,206,202

Notes in relation to Non-Executive Directors' and Executive KMP remuneration table

(i) During the current and previous year Kate Hill salary sacrificed 25% of her annual salary under the rules of the NED equity plan detailed previously and received during the financial year as $25,218 in restricted shares and $7,350 in share rights, of which $12,121 related to salary sacrifice in FY19 and $20,447 related to FY20.

(ii) The STI bonus is for performance during the retrospective financial year using the performance criteria set out on page 14 after performance reviews were completed and approved by the Nomination and Remuneration Committee. Short-term incentives were approved by the Board post year-end but accrued in the financial statements for the year ended 30 June 2020 and were therefore disclosed.

(iii) The respective values of awards granted under the long-term incentive plan (LTI) are calculated as follows:

- *For share options issued prior to FY20, using a Monte Carlo simulation approach subject to the relative total shareholder returns performance conditions, and allocated to each reporting period evenly over the period from grant date to vesting date.*
- *For performance rights issued in FY20, using the 10 day volume weighted average price (VWAP) at the grant date.*

Key terms of employment contracts for the year ended 30 June 2020

Name:	Danny Lessem
Title:	Executive Director and Chief Executive Officer
Details:	Base salary for the year ending 30 June 2020 of $715,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. Danny was eligible for a short term incentive benefit. He does not participate in the LTI.
Name:	James Haslam
Title:	Chief Financial Officer
Details:	Base salary for the year ending 30 June 2020 of $396,000 including superannuation, to be reviewed annually by the Nomination and Remuneration Committee with a 6 month termination notice by either party. James was eligible for both short term and long term incentive benefit.

For personal use only

Remuneration report (audited)

Year ended 30 June 2019

	Cash salary and fees	STI *(ii)*	Annual leave	Long service leave	Super annuation	Share Options *(iii)*	Total
	$	$	$	$	$	$	$
Non-executive Directors:							
James McKerlie (Chairman) *(i)*	190,558	-	-	-	-	-	190,558
Barry Lewin (Chairman) *(i)*	109,231	-	-	-	-	-	109,231
Kate Hill	100,000	-	-	-	-	-	100,000
Leah Graeve *(i)*	5,000	-					5,000
Executive Directors:							
Danny Lessem	609,148	411,667	56,056	-	24,695	-	1,101,566
Trevor Lonstein *(i)*	202,269	-	26,857	-	15,577	3,120	247,823
Other Key Management Personnel:							
James Haslam *(i)*	130,141	60,000	10,606	-	9,705	28,266	238,718
Gordon Starkey	367,808	158,400	38,720	20,023	21,086	73,700	679,737
Xin Sun	328,500	144,000	16,999	15,137	25,038	67,000	596,674
Monica Watt	217,967	100,000	6,565	-	27,266	43,210	395,007
Darryl Garber	267,637	120,000	20,931	-	21,594	50,856	481,017
	2,528,259	994,067	176,734	35,160	144,961	266,152	4,145,333

Notes in relation to Directors' and Executive officers' remuneration table

(i) *The following changes to key management personnel occurred during the financial year:*

- *On 10 October 2018, Barry Lewin was appointed as Non-Executive Director;*
- *On 19 September 2018 Jim McKerlie resigned as Non-Executive Director;*
- *On 12 June 2019 Leah Graeve was appointed as Non-Executive Director;*
- *On 4 February 2019 James Haslam was appointed; and*
- *On 4 February 2019 Trevor Lonstein resigned as Executive Director.*

From and since those dates the individuals ceased and commenced as non-executive directors and key management personnel. The remuneration for each has thereby been disclosed as appropriate until/from these dates.

(ii) *The STI bonus is for performance during the retrospective financial year using the performance criteria set out on page 14 after performance reviews were completed and approved by the Nomination and Remuneration Committee. Short-term incentives were approved by the Board post year-end but accrued in the financial statements for the year ended 30 June 2019 and were therefore disclosed.*

(iii) *The value of the share options granted to key management personnel as part of their remuneration under the long-term incentive plan (LTI) is calculated at the grant date using a Monte Carlo simulation approach subject to the relative total shareholder returns performance conditions, and is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.*

For personal use only

For personal use only

Remuneration report (audited)

Long term incentive plan
Right and options over equity instruments granted as compensation

Under the LTI plan there were no additional share options granted to KMP during the reporting period; however performance rights were awarded.

Details on performance rights and options over ordinary shares in the Group that were granted as compensation to KMP during the reporting period and details on options that vested during the reporting period are as follows:

Options	No of options granted during FY20	No of options held at 30 June 2020	Grant date	Fair value per option at grant date (weighted average)	Exercise price per option	Expiry date	No of options vested or exercised during FY20
James Haslam	-	24,614	27 March 2019	$1.56	$5.50	31 August 2025	-

Performance rights	No of performance rights granted during FY20	No of rights held as at 30 June 2020	Vesting condition	Grant date	Fair value at grant date
James Haslam	15,567	15,567	TSR & Achievement of guidance	19 Sep 2019	$6.74

NED share rights	No of share rights granted during FY20	Share rights Grant date	Fair value at grant date	Vested and converted	No of share rights held as at 30 June 2020
Kate Hill	1,955	20 Sep 2019	$6.20	(1,955)	-
	981	16 Oct 2019	$6.63	(981)	-
	1,019	3 Jan 2020	$6.47	(1,019)	-
	1,470	2 Apr 2020	$5.00	-	1,470

Details of equity incentives affecting current and future remuneration

In addition to a continuing employment service condition, vesting is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are including in the long-term incentives discussion on page 14.

For performance rights granted in the current year, the earliest vesting and exercisable date are:

- Year 1 – 20%
- Year 2 – 30%
- Year 3 – 50%

The value of the performance rights is calculated at the 10 day VWAP as at grant date.

The NED share rights vest on the first business day of the next financial quarter which will be the first available date post the trading black-out window.

Remuneration report (audited)

Key management personnel equity holdings

Year ended 30 June 2020

	Balance as at 1 July 2019	Purchase/sold during the year *(i)*	Shares acquired under NED equity plan	Balance as at 30 June 2020	
				Ordinary Shares	Restricted shares
	Number	Number	Number	Number	Number
Non-Executive Directors					
Barry Lewin	10,000	5,000	-	15,000	-
Kate Hill	-	5,000	3,955	5,000	3,955
Leah Graeve	-	-	-	-	-
Executive KMP					
Danny Lessem	11,989,816	(1,166,667)	-	10,823,149	-
James Haslam	5,000	3,500	-	8,500	-

(i) On 18 September 2019 Danny Lessem sold 1,166,667 ordinary shares at a share price of $6.00 per share.

Year ended 30 June 2019

	Balance as at 1 July 2018	Purchased/ other changes during the year	Balance as at 30 June 2019
	Number	Number	Number
Non-Executive Directors			
Barry Lewin *(i)*	-	10,000	10,000
Jim McKerlie *(ii)*	50,000	(50,000)	-
Kate Hill	-	-	-
Leah Graeve	-	-	-
Executive Directors			
Danny Lessem	11,989,816	-	11,989,816
Trevor Lonstein *(iii)*	420,695	-	420,695
Other Key Management Personnel			
James Haslam *(iv)*	-	5,000	5,000
Gordon Starkey	510,945	(90,250)	420,695
Xin Sun	425,695	-	425,695
Monica Watt	1,250	-	1,250
Darryl Garber	460,945	(40,250)	420,695

(i) Barry Lewin was appointed as a Non-Executive Director on 10 October 2018.
(ii) Jim McKerlie resigned as Non-Executive Director on 19 September 2018. At the date of resignation Jim McKerlie held 50,000 shares.
(iii) Trevor Lonstein resigned as a director on 4 February 2019.
(iv) James Haslam was appointed on 4 February 2019.

This concludes the remuneration report (audited).

For personal use only

ELMO Software Limited
Directors' report
For the year ended 30 June 2020

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors

Barry Lewin Chairman	Danny Lessem Director

6 August 2020
Sydney

For personal use only

For personal use only

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Tel: +61 (0) 2 9322 7000
www.deloitte.com.au

6 August 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 audit of the financial report of Elmo Software Limited for the financial year ended 30 June 2020, 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 audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Joshua Tanchel
Partner
Chartered Accountants

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organisation"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

ELMO Software Limited
Contents
For the year ended 30 June 2020

Consolidated Statement of profit or loss and other comprehensive income	24
Consolidated Statement of financial position	25
Consolidated Statement of changes in equity	26
Consolidated Statement of cash flows	27
Notes to the financial statements	28
Directors' declaration	63
Independent auditor's report to the members of ELMO Software Limited	64

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 year. The financial statements are presented in Australian dollars, which is ELMO Software Limited's functional and presentation currency.

ELMO Software Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	**Principal place of business**
Level 12 680 George Street Sydney NSW 2000	Level 27 580 George Street Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 6 August 2020. The directors have the power to amend and reissue the financial statements.

For personal use only

ELMO Software Limited
Consolidated Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue from contracts with customers	*4*	50,051	40,053
Cost of sales		(7,980)	(5,388)
Gross profit		42,071	34,665
Other income	*5*	2,006	35
Sales and marketing expenses		(22,589)	(17,786)
Research and development expenses		(6,102)	(3,247)
General and administrative expenses		(18,100)	(15,332)
Depreciation and amortisation expense		(15,041)	(9,437)
Impairment loss on trade receivables		(2,109)	(894)
Net gain on derecognition of financial assets measured at cost	*17*	17	98
Finance income	*7*	770	857
Finance costs	*8*	(1,006)	(764)
Share of loss from joint venture	*16*	(182)	-
Loss before income tax expense from continuing operations		(20,265)	(11,805)
Income tax benefit/(expense)	*9*	1,649	(1,375)
Loss after income tax expense for the year		(18,616)	(13,180)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to the owners of ELMO Software Limited		(18,616)	(13,180)
Earnings per share			
From continuing operations		**Cents**	**Cents**
Basic earnings	*37*	(25.42)	(20.85)
Diluted earnings	*37*	(25.42)	(20.85)

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

For personal use only

ELMO Software Limited
Consolidated Statement of financial position
As at 30 June 2020

	Note	Consolidated 2020 $'000	2019 $'000
Assets			
Current assets			
Cash and cash equivalents	*10*	139,887	27,698
Trade and other receivables	*11*	10,386	9,540
Other current assets	*13*	1,636	533
Income tax refundable	*12*	81	-
Finance lease receivable	*18*	206	186
Total current assets		152,196	37,957
Non-current assets			
Investment in jointly controlled entity	*16*	1,498	-
Property, plant and equipment	*14*	4,589	4,249
Intangible assets and capitalised costs	*15*	72,961	58,860
Right-of-use assets	*17*	14,991	8,173
Finance lease receivable	*18*	83	289
Total non-current assets		94,122	71,571
Total assets		246,318	109,528
Liabilities			
Current liabilities			
Trade and other payables	*20*	10,842	7,286
Deferred and contingent consideration	*21*	6,208	3,953
Lease liabilities	*19*	2,741	2,632
Employee benefits	*22*	3,273	1,939
Current tax liabilities	*12*	-	71
Contract liabilities	*23*	26,098	19,910
Total current liabilities		49,162	35,791
Non-current liabilities			
Deferred and contingent consideration	*21*	500	5,500
Lease liabilities	*19*	16,006	9,309
Employee benefits	*25*	436	172
Deferred tax	*24*	450	2,977
Contract liabilities	*23*	516	382
Total non-current liabilities		17,908	18,340
Total liabilities		67,070	54,131
Net assets		179,248	55,397
Equity			
Share capital	*27*	214,156	72,733
Reserves	*27*	1,880	836
Accumulated losses	*28*	(36,788)	(18,172)
Equity attributable to the owners of ELMO Software Limited		179,248	55,397
Total equity		179,248	55,397

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

For personal use only

ELMO Software Limited
Consolidated Statement of changes in equity
For the year ended 30 June 2020

Consolidated	Issued capital $'000	Foreign currency reserves $'000	Share option reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	72,340	(47)	205	(4,286)	68,212
AASB 15 adjustment (net of tax): note 2	-	-	-	(736)	(736)
AASB 16 adjustment (net of tax): note 2	-	-	-	30	30
Restated total at the beginning of the financial year	72,340	(47)	205	(4,992)	67,506
Loss after income tax benefit for the year	-	-	-	(13,180)	(13,180)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(13,180)	(13,180)
Transactions with owners in their capacity as owners:					
Issue of shares under business combinations – deferred consideration from prior year acquisitions (net of costs)	393	-	-	-	393
Reserves:					
Translation movement during the year	-	52	-	-	52
Equity settled share-based payment	-	-	626	-	626
Balance at 30 June 2019	72,733	5	831	(18,172)	55,397

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	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(18,616)	(18,616)
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:					
Translation movement during the year	-	94	-	-	94
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

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

For personal use only

ELMO Software Limited
Consolidated Statement of cash flows
For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		57,498	45,060
Payments to suppliers and employees (inclusive of GST)		(52,851)	(40,226)
		4,647	4,834
Other income received		1,736	-
Income taxes refunded/(paid)		35	(196)
Net cash generated from operating activities	*36*	6,418	4,638
Cash flows from investing activities			
Interest received		746	833
Payment for investment in jointly controlled entity		(1,180)	-
Payment of deferred consideration from acquisitions in the prior period		(3,770)	(5,331)
Payments for property, plant and equipment		(1,785)	(1,001)
Payments for intangibles		(21,423)	(9,433)
Payments for transaction costs of acquisitions		(349)	(494)
Payment for acquisitions of businesses and subsidiaries, net of cash acquired		(2,255)	(7,891)
Receipt for lease incentives		-	2,874
Net cash used in investing activities		(30,016)	(20,443)
Cash flows from financing activities			
Proceeds from issue of shares		142,801	-
Proceeds from exercise of share options		511	-
Share issue transaction costs (net of tax)		(4,356)	(51)
Repayment of lease liabilities		(3,259)	(2,441)
Net cash generated from/(used in) financing activities		135,697	(2,492)
Net increase/(decrease) in cash and cash equivalents		112,099	(18,297)
Cash and cash equivalents at the beginning of the financial year		27,698	45,995
Effect of exchange differences on cash balances		90	-
Cash and cash equivalents at the end of the financial year	*10*	139,887	27,698

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

For personal use only

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The consolidated entity 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.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information
In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ELMO Software Limited ('Group', 'Company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. ELMO Software Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries
Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Transactions eliminated upon consolidation
Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired when the control is transferred to the group.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss, except if related to the issue of equity securities.

For personal use only

Note 1. Significant accounting policies (continued)

Principles of consolidation (continued)
Business combinations (continued)
On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. Any goodwill that arises is tested annually for impairment. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

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 investment 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.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial statements are presented in Australian dollars, which is ELMO Software Limited's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

For personal use only

Note 1. Significant accounting policies (continued)

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

The Group recognises revenue from the following major sources 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 – one-off services including but not limited to training workshops and onsite consultations.	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.

Other income

Other income
Other income is recognised when it is received or when the right to receive payment is established.

Government grants
Government grants, including non-monetary grants at fair value, are only recognised when there is reasonable assurance that:

(a) all conditions attaching to the Government grant will be complied with;
(b) the value of the grant can be determined with reasonable certainty;
(c) the grant will be received.

Government grants are recognised in the profit or loss over the periods in which the Group recognises related expenses. Where government grants relate to costs which have been capitalised as non-current assets these are recognised as a reduction to the related non-current asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

For personal use only

Note 1. Significant accounting policies (continued)

Finance income and finance costs
The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- Foreign currency gain or loss on financial assets or financial liabilities;
- Gain on the remeasurement to fair value of any pre-existing interest in an acquired entity as part of a business combination; and
- Fair value loss on contingent consideration classified as a financial liability through a business combination.

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Interest income includes interest for the lease receivable in relation to the sub-lease held.

Interest expense includes interest in relation to lease liabilities and is calculated based on the default interest rate implicit in the lease contract.

Cost of sales
Cost of sales includes wages, salaries, capitalised commission amortisation and other expenses of employees who carry out implementation, training and support of software for customers. Cost of sales also includes third party hosting costs.

Income tax
Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Tax consolidation
Elmo Software Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group where it is probable that taxable income will be generated.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable for the previous years. The amount of current tax payable or receivable is the best estimate of the tax expected to be paid or received. It is measured using tax rates enacted or substantively enacted at the reporting date.

For personal use only

Note 1. Significant accounting policies (continued)

Income tax (continued)

Deferred tax
Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences, unused tax credits and unused tax losses to the extent it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash at bank and short term deposits with an original maturity of three months or less.

Trade and other receivables
Trade receivables are initially recognised at cost being their carrying value which is a reasonable approximation of their fair value. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

Other receivables are recognised at amortised cost, less any provision for impairment.

For personal use only

Note 1. Significant accounting policies (continued)

Property, plant and equipment
(i) Recognition and measurement
Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

(ii) Subsequent expenditure
Subsequent expenditure is capitalised only if it probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation
Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives and is recognised in profit or loss.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Leasehold improvements	3-8 years
Plant and equipment	3-7 years
Computer equipment	2-4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

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.

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.

For personal use only

Note 1. Significant accounting policies (continued)

Intangible assets (continued)
(i) Recognition and measurement (continued)

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	1-3 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.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or a group of CGUs that are expected to benefits from the synergies of the consolidation.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of the asset of CGU is the higher of the assets fair value less costs to sell and value in use.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of other assets in the CGU or on a pro-rata basis.

An impairment in respect of goodwill is not reversed. For other assets, an impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

With respect to trade receivables an 'expected credit loss' ('ECL') model will be used to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. Impairment of trade receivables which would previously have been included in other expenses is now stated as 'impairment loss on trade receivables'. Any impairment losses on other financial assets are presented under 'finance costs' and not presented separately in the statement of profit or loss and other comprehensive income.

For personal use only

Note 1. Significant accounting policies (continued)

Contract liabilities
AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what is commonly known as 'accrued revenue' and 'deferred revenue' The Group recognises a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the amount invoiced exceeds the revenue recognised to date then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue and the receipt of payment is always expected to be less than one year.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits
Short-term employee benefits
Short-term benefits are expensed as the relative service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment arrangements
The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, to the share-based payment reserve, over the vesting period of the awards. The fair value of the share options and performance rights has been determined as detailed in note 38.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Other long-term employee benefits
The Group's obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the high quality corporate bonds at the statement of financial position date, the maturity of which approximates to the terms of the Group's obligations.

Leases
Definition of a new lease
The determination of whether a contract contains a lease is 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 these lease liabilities, the Group discounted lease payments using the interest rate implicit in the lease contract.

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 personal use only

Note 1. Significant accounting policies (continued)

Leases (continued)
Lessee accounting (continued)

For presentation purposes, the total amount of cash paid in relation to leases is separated into a principal portion (presented within financial activities) and interest on lease liabilities, both recognised in the consolidated statement of profit or loss.

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 the 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.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.
For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Share capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share
Basic earnings per share
Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of Elmo Software Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. In the case that the Group is in a loss position for the period no effect will be applied in relation to dilutive factors.

For personal use only

Note 1. Significant accounting policies (continued)

Rounding of amounts
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, or in certain cases, the nearest dollar.

Standards issued but not yet effective
From the new standards effective for annual periods beginning on or after 1 July 2019 and the standards and interpretations issued but not yet effective, the Group has assessed that there will be no significant impact on the financial statements.

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.

Impairment of goodwill
The consolidated entity assesses impairment of goodwill and other indefinite life intangible assets annually by performing a fair value less costs of disposal 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.

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.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

For personal use only

Note 3. 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 primary statements and notes to the financial statements.

Geographical information

	Revenue from external customers		Geographical non-current assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Australia	45,512	37,124	78,599	58,024
New Zealand	4,333	2,929	13,853	13,258
United Kingdom	206	-	89	-
	50,051	40,053	92,541	71,282

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 and finance lease receivable of $1,581,000 (2019: finance lease receivable of $289,000).

Note 4. Revenue from contracts with customers

Timing of revenue recognition	Consolidated	
	2020 $'000	2019 $'000
Products and services transferred at a point in time	1,181	1,839
Products and services transferred over time	48,870	38,214
Total revenue	50,051	40,053

Note 5. Other income

	Consolidated	
	2020 $'000	2019 $'000
Government grants	2,005	-
Other income	1	35
	2,006	35

For personal use only

Note 6. Expenses

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Employment expenses		
Sales and marketing	17,646	13,076
Research and development	5,263	3,132
General and administrative	9,866	7,187
	32,775	23,395
Included in general and administrative expenses		
Consultancy and subcontractor expenses	1,587	1,189

Note 7. Finance income

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Interest on lease receivable	23	24
Other interest income	747	833
	770	857

Note 8. Finance costs

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Interest on lease liability	950	751
Foreign exchange loss	56	13
	1,006	764

For personal use only

Note 9. Income tax expense

	Consolidated 2020 $'000	Consolidated 2019 $'000
Income tax expense		
Current tax expense	50	(358)
Deferred tax - origination and reversal of temporary differences	1,909	(1,017)
Adjustment recognised for prior periods – current tax	(201)	
Adjustment recognised for prior periods – deferred tax	(109)	-
Aggregate income tax benefit/(expense)	1,649	(1,375)
Income tax expense is attributable to:		
Loss from continuing operations	1,649	(1,375)
Aggregate income tax benefit/(expense)	1,649	(1,375)
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 24)	1,800	(1,017)
Deferred tax - origination and reversal of temporary differences	1,800	(1,017)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax expense from continuing operations	(20,265)	(11,805)
Loss before income tax expense	(20,265)	(11,805)
Tax at the statutory tax rate of 30%	6,080	3,541
Tax effect amounts which are not deductible in calculating taxable income:		
Effect of expenses that are not deductible in determining taxable profit	(657)	(209)
Non-deductible R&D costs (R&D tax offset not booked)	(578)	(3,623)
Tax losses not recognised	(2,886)	(451)
Adjustment for prior income year	(201)	-
Benefit of tax losses not previously recognised	-	9
Other	-	56
	1,758	(677)
Adjustment to opening deferred tax asset	(109)	(698)
Income tax benefit/(expense)	1,649	(1,375)

For personal use only

Note 10. Cash and cash equivalents

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Cash at bank	136,850	25,640
Term deposits (over 90 days maturity)	3,037	2,058
Cash and cash equivalents	139,887	27,698

Note 11. Trade and other receivables

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Trade receivables	12,888	11,015
Loss allowance	(2,502)	(1,475)
	10,386	9,540

The consolidated entity has recognised an expense of $2.1m in profit or loss in respect of impairment of receivables for the year ended 30 June 2020, (2019: $0.9m).

Information about the Group's exposure to credit and market risks, including expected credit losses for trade receivables is included in note 26.

Note 12. Current tax

Current tax liabilities: income tax refundable/(payable)	Consolidated	
	2020	**2019**
	$'000	**$'000**
Income tax refundable/(payable)	81	(71)

Note 13. Other current assets

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Prepayments	531	473
Other debtors	1,105	60
	1,636	533

For personal use only

Note 14. Property, plant and equipment

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Plant and equipment - at cost	859	608
Accumulated depreciation	(455)	(342)
	404	266
Computer equipment – at cost	2,776	1,288
Accumulated depreciation	(1,841)	(830)
	935	458
Leasehold improvements – at cost	4,993	4,311
Accumulated depreciation	(1,743)	(786)
	3,250	3,525
	4,589	4,249

Reconciliations

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

Consolidated	Plant and equipment $'000	Computer equipment $'000	Leasehold improvements $'000	Total $'000
Balance at 1 July 2018	222	314	5,253	5,789
Additions	165	421	415	1,001
Additions through business combinations	-	1	-	1
Disposals	-	(76)	(1,355)	(1,431)
Transfers	(48)	48	-	-
Depreciation expense	(73)	(254)	(786)	(1,113)
Effects of movements in exchange rates	-	4	(2)	2
Balance at 30 June 2019	266	458	3,525	4,249
Additions	265	858	662	1,785
Additions through business combinations	-	13	-	13
Disposals	(8)	-	-	(8)
Depreciation expense	(119)	(396)	(942)	(1,457)
Effects of movements in exchange rates	-	2	5	7
Balance at 30 June 2020	404	935	3,250	4,589

For personal use only

Note 15. Intangibles assets and capitalised costs

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Software development costs	42,724	24,712
Accumulated amortisation	(20,513)	(11,099)
	22,211	13,613
Capitalised sales commission costs	6,673	3,490
Accumulated amortisation	(3,131)	(2,089)
	3,542	1,401
Customer lists (acquired through business combinations)	9,829	8,816
Accumulated amortisation	(2,825)	(1,600)
	7,004	7,216
Goodwill (acquired through business combinations)	39,625	36,051
Trademarks (acquired through business combinations)	579	579
	72,961	58,860

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

Consolidated	Software development costs $'000	Capitalised Commission costs $'000	Customer list $'000	Goodwill $'000	Trademarks $'000	Total $'000
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 (note 21)	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	13,613	1,401	7,216	36,051	579	58,860
Additions	17,459	3,182	-	-	-	20,641
Additions through business combinations (note 21)	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

For personal use only

Note 15. Intangibles assets and capitalised costs (continued)

Goodwill arose during the current financial year through the acquisition of Vocam (2019: HROnboard and Boxsuite); refer to Note 21 for further details.

The Group considers the relationship between its market capitalisation and its book value, among other factors specific to the cash generating unit (CGU), when reviewing for indicators of impairment. At 30 June 2020, the market capitalisation of the Group was significantly greater than the Group's equity book value, indicating no potential impairment of goodwill or impairment of the assets of the CGU.

The recoverable amount of the of the cash generating unit has been based on the fair value less cost of disposal method using a comparable resource transaction multiple multiplied by the resources attributable to this cash generating unit. The valuation is measured using inputs that are based on observable market data. Therefore, they are considered to be level 1 within the fair value hierarchy as per AASB 13 Fair Value Measurement.

Note 16. Investment in jointly controlled entity

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Balance as at 13 December 2019 on acquisition	1,680	-
Group's share of losses for the year ended 30 June 2020	(182)	-
Carrying amount as at 30 June 2020	1,498	-

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 initial 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:

	2020
	$'000
Current assets	1,052
Non-current assets	-
Current liabilities	(324)
Non-current liabilities	-
Net assets	728
Revenue	1,951
Losses (100%)	(364)
Losses (50%)	(182)
Reconciliation of net assets	
Opening net assets as at acquisition	1,092
Loss for the period	(364)
Closing net assets	728
50% ownership interest	364
Goodwill	1,134
Carrying amount of jointly controlled entity	1,498

For personal use only

Note 17. Right of use assets

The Group holds leases for several properties with lease terms ranging from 3 to 5 years.

Right-of-use assets: property

	Consolidated $'000
As at 1 July 2018: cost recognised upon transition to AASB 16	11,492
Less: accumulated depreciation recognised upon transition to AASB 16	(1,156)
Net carrying amount as at 1 July 2018	10,336
Additions	627
Derecognition of right-of-use asset (i)	(505)
Depreciation	(2,285)
Net carrying amount as at 30 June 2019	8,173
Additions (iii)	9,538
Derecognition of right-of-use asset (ii)	(151)
Depreciation	(2,569)
Net carrying amount as at 30 June 2020	14,991

	2020 $'000	2019 $'000
Amounts recognised in profit or loss in relation to leases		
Interest expense	950	751
Expense relating to low value assets	57	19
Expense relating to variable lease payments not included in the measurement of the lease liability	561	449
Cash flow from leases		
Total cash outflow as a lessee	3,469	3,917
Income from sub-leasing of right-of-use asset	210	152

(i) In the prior financial year, a sub-lease was entered into derecognising the right-of-use asset in relation to the head lease and recognising a financial lease receivable (note 18) with a resulting gain to the profit or loss of $98,332.

(ii) In the current financial year, the existing lease in Melbourne was replaced by a new lease resulting in a gain of $16,687.

(iii) Included in additions is the effect of the extension of the Sydney lease from 5 years to 8 years with a resulting uplift to the right of use asset of $6.9m and corresponding amount to lease liability.

Note 18. Finance lease receivable

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current finance lease receivable (recoverable within 12 months)	206	186
Non-current finance lease receivable (recoverable after 12 months)	83	289

For personal use only

Note 19. Lease liabilities

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Amounts due for settlement in less than 12 months (current)	2,741	2,632
Amounts due for settlement in more than 12 months (non-current)	16,006	9,309

	Consolidated	
	2020	**2019**
Maturity analysis	**$'000**	**$'000**
Not later than 1 year	2,741	2,632
Later than 1 year but not later than 5 years	11,879	9,309
Later than 5 years	4,127	-
	18,747	11,941

The lease liabilities are interest bearing at an average rate of 6% based on the interest rates implicit in the lease contract. There are options to extend included in several of the lease contracts held. As at 30 June 2020 any options which are not expected to be exercised based on current business operations have not been included in the lease calculations. There are no other future cash flows anticipated in relation to leases held which have not been disclosed in the financial statements.

Note 20. Trade and other payables

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Trade payables and accruals	7,579	4,506
Other payables	3,263	2,780
	10,842	7,286

For personal use only

Note 21. Business combinations and acquisitions of business assets

During the year the Group acquired interests in Vocam entities (including Vocam Pty Ltd and Safety Learning Ltd), (2019: HROnboard and BoxSuite). Key information on the acquisitions is summarised in the table below:

	Acquired in the year ended 30 June 2020 *Provisional accounting*	***Acquired in the year ended 30 June 2019***	
	Vocam $'000	**HROnboard $'000**	**BoxSuite $'000**
Net tangible assets	13	1	-
Cash	287	332	13
Customer list	1,013	1,806	15
Software	525	1,580	1,179
Trademark	-	337	-
Other assets	-	498	9
Contract liability	(1,209)	(1,303)	-
Deferred tax liability	(304)	(1,117)	(358)
Loans repaid to previous shareholders	-	(948)	-
Other liabilities	(79)	(426)	(4)
	246		
Net identifiable assets acquired		760	854
Goodwill on acquisition	3,541	14,123	546
Fair value of the total consideration transferred (Purchase price of $3.5m plus cash acquired)	3,787	14,883	1,400

Deferred consideration paid

Acquired entity	**Consideration settled in shares $'000**	**Consideration settled in cash $'000**
Settled in FY20		
Sky Payroll	-	400
BoxSuite	-	435
HROnboard	-	2,935
Settled in FY19		
QMC	-	4,000
Sky Payroll	-	400
Pivot Software	393	931

As at 30 June 2020, consideration has been settled in final in relation to Sky Payroll.

FY 20 Acquisitions

Vocam

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

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.

For personal use only

Note 21. Business combinations and acquisitions of business assets (continued)

FY 19 Acquisitions

HROnboard

On 31 January 2019 the Group completed the purchase of HROnboard Pty Limited ('HROnboard'), one of Australia's leading providers of cloud-based employee onboarding software for an estimated total consideration of $10.0m with an initial amount of $7.0m paid on completion and a deferred cash payment of $3.0m. The vendor is eligible for an additional conditional cash payment (estimated to be $5.5m) which will be subject to achieving a range of certain high growth performance targets.

Total consideration payable is subject to adjustments relating to cash, debt and working capital.

The onboarding process is an essential function of the employee's lifecycle within an organisation and the acquisition of HROnboard strategically strengthens ELMO's position as a leading provider of SaaS onboarding solutions in the Australian market.

Goodwill has arisen through this acquisition from synergies, the opportunities for cross-selling and ability to provide a broader product suite to offer to the market.

BoxSuite

On 31 January 2019 the Group completed the purchase of Get BoxSuite Pty Limited ('BoxSuite'), a SaaS, cloud-based specialist in workplace rostering and time and attendance for casual and shift-based employees, for a total consideration of $1.4m with an initial amount of $1.0m paid on completion and $0.4m deferred based on agreed milestones.

BoxSuite's rostering module enables organisations to schedule shifts and monitor staff costs while its time and attendance modules enable organisations to efficiently record and manage employee hours, calculate appropriate remuneration rates, and seamlessly integrate with external payroll platforms.

The acquisition of BoxSuite is firmly in line with ELMO's growth strategy to supplement the Group's strong organic growth with complementary technology to offer customers an integrated product suite of HR and payroll solutions.

Results for each acquisition 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	Profit/(Loss) before tax
Year ended 30 June 2020	**$'000**	**$'000**
Vocam	687	137
Year ended 30 June 2019		
HROnboard	1,372	(476)
BoxSuite	5	(565)

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 Vocam (2019: HROnboard and BoxSuite) would have been:

	2020 $'000	2019 $'000
Revenue	51,500	42,600
Loss before tax	(20,200)	(11,400)

The Group incurred costs of $0.3m (2019: $0.55m) in relation to all acquisitions made during the year. These costs have been included in business acquisition expenses.

For personal use only

For personal use only

Note 22. Employee benefits: current liabilities

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Employee benefits	3,273	1,939

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement.

Note 23. Contract liabilities

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Contract liabilities		
Current	26,098	19,910
Non-current	516	382

Note 24. Deferred tax: non-current liabilities
Year ended 30 June 2020

	As at 1 July 2019	Recognised in profit or loss	Recognised in equity	Acquired in business combinations (Note 21)	As at 30 June 2020
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Provision for doubtful debts	216	374	-	-	590
Prepayments	(1)	1	-	-	-
Property, plant and equipment	8	318	-	-	326
Intangibles	(2,402)	1,349	-	-	(1,053)
Right-of-use assets	(3,464)	(1,018)	-	-	(4,482)
Government grant	-	(299)	-	-	(299)
Blackhole expenses	733	(518)	1,307	-	1,522
Acquired on business combination:					
Customer list	(2,271)	(133)	-	304	(2,100)
Capitalised software development costs	(693)	2,329	-	-	1,636
Trademarks	(174)	-	-	-	(174)
Superannuation payables	184	74	-	-	258
Accruals	604	170	-	-	774
Provision for employee benefits	548	564	-	-	1,112
Contract liabilities	152	(132)	-	-	20
Lease liabilities	3,583	2,023	-	-	5,606
Deferred tax timing differences not booked	-	(4,186)	-	-	(4,186)
Deferred tax assets/(deferred tax liabilities)	(2,977)	916	1,307	304	(450)

Note 24. Deferred tax: non-current liabilities

Year ended 30 June 2019

	As at 1 July 2018	Prior year adjustments (Note 2)	Recognised in profit or loss (Note 9)	Acquired in business combinations (Note 21)	As at 30 June 2019
	$'000	$'000	$'000	$'000	$'000
Provision for doubtful debts	172	-	44	-	216
Prepayments	(2)	-	1	-	(1)
Property, plant and equipment	(1)	-	9	-	8
Intangibles	(1,514)	-	(888)	-	(2,402)
Right-of-use assets	-	(3,101)	(363)	-	(3,464)
Blackhole expenses	13	-	(6)	-	7
IPO costs	554	-	(185)	-	369
Transaction costs on share issue	476	-	(119)	-	357
Acquired on business combination:					
Customer list	(1,941)	-	216	(546)	(2,271)
Capitalised software development costs	59	-	76	(828)	(693)
Trademarks	(73)	-	-	(101)	(174)
Superannuation payables	84	-	100	-	184
Accruals	189	-	415	-	604
Provision for employee benefits	342	-	206	-	548
Contract liabilities	-	316	(164)	-	152
Lease liabilities	-	3,101	482	-	3,583
R&D tax incentive	841	-	(841)	-	-
Deferred tax assets/(deferred tax liabilities)	(801)	316	(1,017)	(1,475)	(2,977)

.

The Group has decided not to book $4.2 million of deferred tax temporary differences in excess of deferred tax liabilities in this financial year until there is reasonable certainty that sufficient future taxable income will be available. The Group will continue to monitor this assessment in FY21 as the Group continues to scale and grow.

The Group has also decided not to book the deferred tax impact from tax losses and carry forward R&D tax concessions of $5.3 million (2019: $2.4 million), until there is reasonable certainty that sufficient taxable income will be generated. The Group will continue to monitor this assessment in FY21 as the Group continues to scale and grow.

Note 25. Employee benefits: non-current liabilities

	Consolidated	
	2020 $'000	2019 $'000
Employee benefits	436	172

For personal use only

Note 26. 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.

Accounting classifications and fair values

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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.

30 June 2020	**Carrying amount: Fair value through P&L $'000**	**Fair value: Level 3 $'000**
Contingent consideration	5,602	3

The fair value of the contingent consideration is measured at the cashflow expected in accordance with the share purchase acquisition.

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.

For personal use only

Note 26 Financial risk management (continued)

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 (see note 11) and lease receivables (note 18).

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.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2020 %	2019 %	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Neither past due nor impaired	-	-	6,361	4,192	-	-
0 to 3 months overdue	5%	14%	3,655	5,392	198	731
3 to 6 months overdue	80%	52%	2,872	1,431	2,304	744
Total			12,888	11,015	2,502	1,475

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	Trade and other payables	Deferred and contingent consideration	Lease liabilities
	$'000	$'000	$'000
Within 1 year	10,842	6,208	2,741
1-2 years	-	-	2,626
2-5 years	-	500	9,253
Over 5 years	-	-	4,127

For personal use only

Note 26 Financial risk management (continued)

The Group currently does not hold debt and following 2 capital raisings in the current financial year has a cash balance of $139.9m including $3.0m bank guarantees at 30 June 2020. 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 debt.

Interest rate risk
As the Group does not currently hold debt, the only significant liabilities which are subject to interest rate risk are lease liabilities held. The interest charged on these liabilities is implicit in the lease and is fixed for all leases currently held and committed.

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.

ELMO's financial statements are presented in Australian Dollars with only a small proportion of sales denominated in overseas currencies as denoted under note 4 *Revenue from contracts with customers* and these transactions are conducted at spot rates as necessary in normal operations.

The Group's assets and liabilities at balance date denominated in foreign currencies is:

	New Zealand Dollar $'000	Singapore Dollar $'000	British Pound Sterling £'000
Assets			
Current	3,814	287	159
Non-current	5,715	-	49
Liabilities			
Current	(3,437)	-	(156)
Non-current	(4,097)	(798)	(20)

Based on historical volatility of the above currencies and quantum of net assets as detailed, movements in foreign exchange rates are not expected to have a significant impact on the Group's financial performance.

Note 27. 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	72,373	393
At 30 June 2019	**63,232,459**	**72,733**

For personal use only

Note 27. Equity - share capital and reserves (continued)

	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 (note 21)	141,443	1,000
Exercise of unlisted options (note 38)	187,533	669
Less transaction costs	-	(3,047)
At 30 June 2020	**85,659,114**	**214,156**

Shares issued during the year

Date	Number of shares	Share price
Institutional Placements		
18 September 2019	9,166,667	$6.00
12 May 2020	10,000,000	$7.00
Share Purchase Plan		
17 October 2019	2,500,614	$6.00
4 June 2020	430,398	$6.50

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.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. For the current and prior periods, no dividends have been paid or proposed.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 30 June 2019 Annual Report.

For personal use only

Note 27. Equity - share capital and reserves (continued)

Nature and purpose of reserves

Reserves

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Foreign exchange translation reserve	99	5
Share-based payment reserve	1,781	831
	1,880	836

(i) Foreign exchange translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(ii) Share-based payment reserve
The share options reserve comprises the value of the share-based payment arrangements recognised in equity.

Note 28. Equity - accumulated losses

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Accumulated losses at the beginning of the financial year	(18,172)	(4,286)
AASB 15 *Revenue from contracts with customers,* adjustment, net of tax	-	(736)
AASB 16 *Leases,* adjustment, net of tax	-	30
Loss after income tax benefit for the year	(18,616)	(13,180)
Accumulated losses at the end of the financial year	(36,788)	(18,172)

Note 29. Equity - dividends

There were no dividends paid or proposed for the year ended 30 June 2020 (2019: $nil).

Note 30. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and key management personnel of the consolidated entity is set out below:

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Short-term employee benefits	2,059	3,734
Post-employment benefits	60	145
Share-based payment (including NED equity plan)	87	266
	2,206	4,145

Further details of the compensation made to directors and other key management personnel are included in the remuneration report within the Directors' report.

For personal use only

Note 31. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Group, its network firms and unrelated firms:

	Consolidated	
	2020	**2019**
	$	**$**
Audit services - Deloitte Touche Tohmatsu		
Audit of the financial statements	255,000	239,000
Other services - Deloitte Touche Tohmatsu	80,000	110,000
	335,000	349,000

During the financial year the following fees are payable for services provided by Mann & Associates PAC as auditors and accountants for ELMO Talent Management Software Pte Limited:

Audit services - unrelated firms		
Audit of the financial statements for ELMO Talent Management Software Pte Limited	7,083	5,435
Other services – unrelated firms		
Accountancy fees for ELMO Talent Management Software Pte Limited	5,300	7,191
	12,383	12,626

Note 32. Related party transactions

Parent entity
ELMO Software Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 34.

Key management personnel
Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

Loans to/from related parties
In the current year $463,000 were repaid to the former shareholders of Vocam.

In the year ended 30 June 2019, a loan payable of $24,564 with one of its shareholders was written off to the profit or loss and $948,000 of loans were repaid to the former shareholders of HROnboard.

Other related party transactions
During the year amounts of $1,358,634 were paid to the Group's jointly controlled entity, Hero Brands Pty Ltd in relation to development costs and an amount of $278,689 was payable as at 30 June 2020.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

For personal use only

Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2020	**2019**
	$'000	**$'000**
Loss after income tax benefit	(18,442)	(11,946)
Total comprehensive loss	(18,422)	(11,946)

Statement of financial position

	Parent	
	2020	**2019**
	$'000	**$'000**
Total current assets	143,731	33,634
Total assets	239,459	103,676
Total current liabilities	(37,177)	(27,208)
Total liabilities	(57,230)	(44,887)
Equity		
Issued capital	214,156	72,733
Reserves	1,736	822
Accumulated losses	(33,663)	(14,766)
Total equity	182,229	58,789

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

For personal use only

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest 2020 %	Ownership interest 2019 %
ELMO Accredited Pty Limited	Australia	100%	100%
ELMO Talent Management Software Pty Limited	Australia	100%	100%
International Colleges Pty Limited	Australia	100%	100%
Studywell College Pty Limited	Australia	100%	100%
Techni Works Pty Limited	Australia	100%	100%
Techniworks Action Learning Pty Limited	Australia	100%	100%
Quinntessential Marketing Consulting Pty Limited	Australia	100%	100%
ELMO Talent Management Software Pte Limited	Singapore	100%	100%
ELMO Software Limited	New Zealand	100%	100%
ELMO New Zealand Holdings Limited	New Zealand	100%	100%
Pivot Remesys Group Holdings Limited	New Zealand	100%	100%
Pivot Remesys IP Limited	New Zealand	100%	100%
Pivot Remesys Limited	New Zealand	100%	100%
Pivot Remesys Pty Limited	Australia	100%	100%
HROnboard Pty Limited	Australia	100%	100%
Get BoxSuite Pty Limited	Australia	100%	100%
Vocam Pty Limited	Australia	100%	-
Rose Class Unit Trust	Australia	100%	-
Safety Business Learning Limited	United Kingdom	100%	-

Note 35. Events after the reporting period

Novel Coronavirus (COVID-19)

The Novel Coronavirus ('COVID-19') was declared a pandemic in March 2020 by the World Health Organisation ('WHO'). Subsequent to the end of the 30 June 2020 financial year, there continues to be considerable economic impacts in Australia and globally arising from the outbreak of COVID-19 and Government action to reduce the spread of the virus. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries have caused disruption to businesses and economic activity. The Group considers this to be a non-adjusting post balance date event.

COVID-19 has not substantially impacted the operations of the Group and its core operations. There has been some deferral in the procurement decisions by customers which has had an impact in the rate of securing new customers and cross selling to existing customers and some rephasing of payments by customers. At present, the Group continues to operate effectively with business as usual.

The Group has no external debt and as at 30 June 2020 had $139.9m of cash available to the Group. Management believe this is sufficient cash to absorb the effects of COVID-19 even if the related restrictions remain in force for an extended period of time.

The directors do not consider that the impact is likely to compromise the ability of the Group to continue operating for the foreseeable future. However, considerations on the economic impact resulting from COVID-19 have been included in the financial results for the year ended 30 June 2020 through the allowance for expected credit losses over receivables.

For personal use only

Note 35. Events after the reporting period (continued)

Other than in relation to COVID-19, no other matter or circumstance has arisen since 30 June 2020 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.

Note 36. Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Loss after income tax benefit for the year	(18,616)	(13,180)
Adjustments for:		
Amortisation and depreciation	15,671	9,437
Bad debt expense	2,109	894
Transaction costs	349	545
Interest received	(746)	-
Share based payment	1,109	626
Lease finance cost	954	-
Lease finance income	(23)	-
Other	(4)	(543)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(3,290)	(4,029)
Increase in other assets	(13)	620
Decrease in lease incentive	-	1,290
Decrease in income tax refundable	40	(196)
Increase in deferred tax liabilities	(1,682)	853
Increase in trade and other payables	3,260	3,324
Increase in employee benefits	1,545	685
Increase in contract liabilities	4,930	4,779
Increase in capitalised R&D software	825	-
Increase in lease payables	-	366
Net cash from operating activities	6,418	5,471

For personal use only

Note 37. Earnings per share

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Earnings per share for profit from continuing operations		
Loss after income tax	(18,616)	(13,180)
	Cents	**Cents**
Basic earnings per share	(25.42)	(20.85)
Diluted earnings per share	(25.42)	(20.85)

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	
	2020	**2019**
	Number	**Number**
Weighted average number of ordinary shares used in calculating earnings per share	73,225,709	63,210,660

Note 38. Share-based payment arrangement

Description of share-based payment arrangement
As at 30 June 2020 the Group had the following share-based payment arrangements in place.

Long term incentive plan (LTI)
ELMO has established both a Senior Executive Plan (SEEP) and a High Performer Equity Plan (HPEP) as part of its long term incentive (LTI) Plan. Offers will be made at the discretion of the Board. The terms of the incentives granted under these plans will be determined by the Board at grant and may therefore vary over time. ELMO will regularly assess the appropriateness of its incentive plans and may amend or replace, suspend or cease using either or both of the SEEP or HPEP if considered appropriate by the Board.

Share options (equity-settled)

For the financial years up to and including FY19 equity incentives under the SEEP or the HPEP were granted to employees (or such other person that the Board determines is eligible to participate) in the form of share options. The options are structured to receive shares at a future date subject to the recipient paying the exercise price.

Performance rights (equity settled)
From FY20 onward, to ensure alignment and retention of key executives as the Group matures, awards under the SEEP or the HPEP are issued as performance rights rather than share options. If the performance rights vest they will be automatically converted to shares and one share will be received for each performance right vested and no cash alternative.

The Senior Executive Equity Plan (SEEP)

The SEEP is intended to align the interests of the senior executives with Shareholders. Awards under the SEEP will be structured as an option to receive Shares at a future date subject to the recipient paying the exercise price (SEEP Option). The rules of the SEEP will provide the Board with the flexibility to award restricted shares, performance rights and options, and to cash settle any award, at the discretion of the Board.

Grants under the SEEP are expected to be made annually and will be made to the senior executive team and such other executives as the Board may determine from time to time. Any grants will be made subject to the ASX Listing Rules, to the extent applicable.

For personal use only

Note 38. Share-based payment arrangement (continued)

The High Performer Equity Plan (HPEP)

The Plan is designed to link to performance, encourage retention, reward tenure and provide High Performers with participation in the Group.

Awards under the Plan will be structured as an option to receive shares on a certain date in the future subject to the participant paying the exercise price. The Plan rules will provide the Board the flexibility to award restricted shares, performance rights and options, and to cash settle any Award. Grants will be made to the High Performers and such other executives as the Board may determine.

Share options (equity-settled)

Grant date/employees entitled	No of options granted and outstanding as at 30 June 2019	Exercised	Cancelled	No of options outstanding as at 30 June 2020	Vested
Options granted to key management personnel under SEEP					
17 October 2017	398,712	(114,023)	-	284,689	284,689
7 December 2017	31,373	-	-	31,373	31,373
29 October 2018	223,247	(13,538)	-	209,709	98,087
27 March 2019	24,614	-	-	24,614	-
Total SEEP options	677,946	(127,561)	-	550,385	414,149
Options granted to key management personnel under HPEP					
17 October 2017	202,902	(57,972)	(72,465)	72,465	72,465
11 December 2017	8,735	(2,000)	-	6,735	6,735
9 March 2018	22,260		-	22,260	22,260
12 June 2018	8,820		(8,820)	-	-
5 November 2018	455,354		(128,520)	326,834	326,834
25 February 2019	7,885		-	7,885	-
Total HPEP options	705,956	(59,972)	(209,805)	436,179	428,294
Total options	**1,383,902**	**(187,533)**	**(209,805)**	**986,564**	**842,443**

There were no share options granted under the SEEP and HPEP during the current financial year. There is a vesting condition relevant to all share options under the SEEP and HPEP that the participant must be employed at the vesting date.

The fair value of the employee share options under the SEEP has been measured using the Monte Carlo simulation approach subject to the total shareholder returns (TSR) performance criteria.

The fair value of the employee share options under the HPEP has been measured using the Binomial option pricing model. Non-market performance conditions attached to the arrangements were not taken into account in measuring fair value in accordance with accounting standards.

For personal use only

Note 38. Share-based payment arrangement (Continued)

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

For the year ended 30 June 2019	Share options plans				
	SEEP			HPEP	
	Tranche 1	Tranche 2	Tranche 3	5 Nov 2018	25 Feb 2019
Fair value at grant date	$1.18	$1.50	$1.76	$1.64	$1.64
Share price at grant date	$5.50	$5.50	$5.50	$5.50	$5.50
Exercise price	$5.50	$5.50	$5.50	$5.50	$5.50
Expected volatility (weighted-average)	37%	37%	37%	37%	37%
Expected life	2.7 years	3.7 years	4.7 years	3.5 years	3.5 years
Expected dividends	0%	0%	0%	0%	0%
Risk-free interest rate	2.05%	2.14%	2.25%	2.11%	2.11%

Volatility is a measure of price variation of a financial instrument over the life of the award. Since ELMO is newly listed on the ASX, there is no sufficient market data to measure the historical volatility and there are no publicly traded options over the Group's ordinary shares. Therefore, this valuation has based the expected volatility on average annualised historical volatility of constituents in S&P/ASX 300 Software & Services Industry Index over the three-year period to the valuation date.

ELMO's current policy is not to distribute dividends but rather reinvest in the growth of the Group hence zero dividend yield is used in this valuation report.

Performance rights (equity-settled)

Upon exercise of performance rights each participant is entitled to one ordinary share for each performance right vested with no cash alternative, therefore the performance rights are deemed to be equity-settled.

SEEP
On 19 September 72,504 performance rights were granted under the SEEP with the number of performance rights fixed at this date. The performance rights were valued at grant date using the 10-day VWAP date and will vest in three tranches over a three-year period from the grant date in the following proportions:

- Year 1 – 20%
- Year 2 – 30%
- Year 3 – 50%

Performance will be tested 50% against relative TSR (RTSR Hurdle), 50% material achievement of Group guidance and continued employment.

HPEP
Based on performance criteria and pro-rated for number of days employed during the year the exact number of performance rights granted will be fixed in August 2020 valued at this date based on the 10-day VWAP. As at 30 June 2020 with a fair value based on the year-end share price of $7.16, achievement of performance criteria and probability of continued employment the number of performance rights is 174,691.

The performance rights under the HPEP will vest in August 2021 with the condition that the participant must be employed at the vesting date and immediately convert into shares at this date.

An expense of $687,000 in relation to the performance rights granted and $438,000 in relation to share options (2019: $626,000 for share options only) has been recognised in the statement of profit or loss with a corresponding increase to the share-based payment reserve in the year ended 30 June 2020.

For personal use only

ELMO Software Limited
Directors' declaration
For the year ended 30 June 2020

1. In the opinion of the directors of ELMO Software Limited (the 'Company'):

   a) The consolidated financial statements and notes that are set out on pages 24 to 62 and the Remuneration Report on pages 11 to 20 in the Directors' Report, are in accordance with the *Corporations Act 2001,* including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001:* and

   b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2020.

3. The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Barry Lewin	Danny Lessem
Chairman	Director

6 August 2020
Sydney

For personal use only

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

For personal use only

Independent Auditor's Report to the Members of Elmo Software Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Elmo Software Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulation 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

For personal use only

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the scope of our audit responded to the Key Audit Matter
Revenue Recognition – rendering of services ($50.1m) Refer to the description of accounting principles and Note 4. For the year ended 30 June 2020, $50.1 million was recognised by the Group from rendering of services. A significant level of judgment is required in ensuring the relevant revenue recognition criteria is met as per the relevant accounting standard. In the current financial year revenue has been recognised automatically for new contracts and manually for legacy contracts. This judgment and the manual nature of the legacy contracts could affect the timing and quantum of revenue recognized in each period. As the Group continues to expand, and its software offering evolves, there is a considerable risk associated with recognising its services revenue.	Our audit procedures included, but were not limited to: • Obtaining an understanding of all the revenue streams and the appropriateness of the Group's principles in determining that the revenue recognised is in accordance with the criteria outlined in the relevant accounting standards; • Assessing the key controls in relation to the recognition of and measurement of revenue and in conjunction with our IT specialist, testing the automated controls over the deferred revenue recognition; • Reconciling the deferred revenue schedule to the trial balance as at 30 June 2020 and testing journal entries to identify unusual items; • Testing on a sample basis, revenue transactions by agreeing the revenue recognised during the year to the signed customer contract and the related invoice; • Obtaining a listing of all invoices raised during the year and verified the completeness of the deferred revenue listing; • Recalculating the expected revenue including the amount of deferred revenue to be recognised during the year and compared to the figures in the revenue and deferred revenue schedule; and • Testing on a sample basis, the completeness of credit notes issued post year end. We also assessed the appropriateness of the disclosures in Note 4 to the financial statements.

For personal use only

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and ASX Additional Information, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the annual report (but does not include the financial report and our auditor's report thereon): Company Description, Chairman's message, CEO's overview and other Company information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company Description, Chairman's message, CEO's overview and other Company information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

For personal use only

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

Report on the Remuneration Report

Opinion on the Remuneration Report
We have audited the Remuneration Report included in pages 11 to 20 of the Directors' Report for the year ended 30 June 2020

In our opinion, the Remuneration Report of Elmo Software Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001.*

Responsibilities
The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Joshua Tanchel
Partner
Sydney, 6 August 2020

For personal use only