

16 February 2021

ELMO Software Limited

(ASX:ELO)



## ELMO Software 1H21 Results Transcript

### Danny Lessem, CEO and Co-Founder

Good morning. Welcome to ELMO Software's first half FY21 results presentation. I will be referring to the pack released to the ASX this morning. The key messages for today are:

- 1) ELMO has recorded strong growth for the first half as we continue to deliver on our growth strategy;
- 2) we are still early in our growth journey and our market opportunity is large; and
- 3) we are well-capitalised to fund growth initiatives.

Turning to page three. We continue to deliver on our stated growth strategy. Annualised recurring revenue, our key anchor metric, grew to \$74.2 million, up 42.8% on pcp. Statutory revenue rose to \$30.6 million, up 29.3% on pcp. EBITDA came in at negative \$0.8 million, up \$1.8 million on pcp. Cash receipts continued to grow strongly, rising 25.5% on 1H20 to \$34.4 million for the half. Importantly, ELMO remains very well capitalised to continue our growth journey. We currently have \$71.3 million cash on hand. In addition, I'm pleased to announce a new \$34.5 million debt facility with the Commonwealth Bank of Australia. We are also pleased to reaffirm our guidance.

Turning to page four, Company Overview. ELMO offers a convergent solution, providing medium and small businesses an all-in-one platform to manage people, process and pay. ELMO's competitive advantage is the width of our solution, addressing a wide variety of customer needs all in a single integrated platform. The business operates on a robust SaaS model based on recurrent subscription revenue. ELMO's offering has multiple modules or revenue streams, and we utilise a land and expand strategy to grow revenue from both new and existing customers. At 31 December, we had grown to a total of 524 employees with offices in Australia, New Zealand, and now the United Kingdom.

On to page five. Our expansion strategy is underpinned by three key pillars, which will continue to drive our growth. Firstly, segment expansion, secondly, module expansion, and finally, geographic expansion.

Let me take you through each pillar in more detail. Turning to page six: segment expansion. With the acquisition of Breathe, ELMO now has two distinct market segments that we can address with two fit-for-purpose platforms. The growth opportunities across each of these two segments are large. On the right side of the page is the historic ELMO mid-market business focusing on organisations with 50 to 2,000 employees. ELMO currently has 2,892 mid-market customers with substantial upside as we further penetrate this market segment. On the left side of the page, there's the new Breathe small business solution. Breathe's self-service platform caters for businesses with fewer than 50 employees. This is a new \$2.2 billion opportunity. Currently we have over 7,000 customers and have tremendous head room to grow this further.

Moving on to page seven. The second pillar of our growth strategy is module expansion. ELMO operates on a land and expand model. The width of our integrated solution gives us a competitive advantage in attracting new customers. It also enables us to cross-sell our additional modules to our existing customer base. The latest example of module expansion is the addition of an expense management module to our platform via the acquisition of Webexpenses, taking our total module count to 16. Expense management is a natural adjacency to both HR and payroll. Its inclusion in our product suite further differentiates our value proposition and enhances our cross-sell potential.

Turning to page eight, the last pillar of our growth strategy is geographic expansion. There are significant revenue opportunities in the United Kingdom. The acquisition of Breathe and Webexpenses during the half provide an important foundation for ELMO's growth in the UK. Breathe's established and fast-growing customer base provides a meaningful foothold in the UK for growth in the small business segment. We're already progressing with integrating ELMO modules across the Breathe customer base.

Similarly, Webexpenses has an existing and rapidly growing customer base. This gives us a great starting point in the UK for growth in the mid-market segment. Work has begun on leveraging the existing ELMO module suite into this new customer group.

Turning to page nine. As a result of our expansion into new market segments, module adjacencies and geographies, our total addressable market has expanded considerably to \$12.8 billion. This provides tremendous headroom for growth into the future. Now I'll hand over to James to take you through our financial results.

#### **James Haslam, Chief Financial Officer**

Thank you, Danny, and good morning everybody. I'll now take you through our results in some more detail at both the consolidated and segment level. Turning to page 11, the group annual recurring revenue growth. We closed the half year with annual recurring revenue in December of \$74.2 million, a 42.8% increase compared to December 2019, which is tracking well for the full-year guidance range of between \$81.5 and \$88.5 million.

Turning to page 12, to look at the ARR growth in more detail. Over the last 12 months, ELMO has continued to deliver organic growth throughout the mid-market and small business platforms complemented by the acquisitions through the year. Mid-market growth has been driven by winning new customers as we saw procurement activity increase. Pleasingly, we have already seen strong performance in the UK with Breathe growing at over 24% on an annualised basis since acquisition.

To break down our results at the segment level, please turn to page 13, to look at the mid-market in more detail. Highlights of our mid-market performance include, annual recurring revenue closed at \$67.3 million representing 29.5% growth when compared to December 2019. And revenue for the half year was 28.9 million, reflecting growth of 22.5% from the prior period. From an operational standpoint, gross margin increased 88.5% with customer retention closing at 90%. Total mid-market customers increased to 2,892 with the 342 new customers taking an average of four modules in their initial subscription.

Turning to page 14, we look at the performance of the small business or Breathe segment. This dashboard is designed to provide some early insight into the performance of the small business

segment, which we entered on the acquisition of Breathe in early October. A couple of highlights: ARR closed at \$6.9 million with a gross margin of 90.1%. Total customers closed at 7,146 and a retention rate of 87.5%.

Turning over to page 15, I'll run through some additional highlights of the group results. On a consolidated basis, EBITDA closed at negative \$0.8 million for the half, reflecting an improvement of \$1.8 million compared to the prior period. The growth in EBITDA is coming through as a result of the increase in scale of the group, which is starting to drive some operating leverage.

Turning to page 16, we outline the estimated lifetime value of the group. Through the increased operations following the acquisitions of Breathe and Webexpenses, we estimate the total lifetime value of the consolidated group to be \$678 million.

Turning to page 17, the group cashflow. We reported a record level of cash receipts for the six months to 31 December 2020, and have closed the period with \$71.3 million of cash available. An important development has been the securing of a \$34.5 million debt facility with the Commonwealth Bank of Australia. This facility will be utilised to further support the growth initiatives of the group.

Finally, on page 18, I will talk to the full-year guidance. I'm pleased to reconfirm ELMO is tracking towards the guidance which was reiterated on the 28th of January 2021. On a consolidated basis, we expect to close the full year with annual recurring revenue in between \$81.5 and \$88.5 million, revenue between \$65 and \$71 million, and EBITDA between negative \$2.4 and negative \$7.4 million. Thank you for your time this morning and I will now hand back to the operator for questions.

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## About ELMO

Established in 2002, ELMO is a cloud-based HR & Payroll software provider. The company offers customers a unified platform to streamline processes for HR, and also manage payroll and rostering / time & attendance. ELMO operates on a Software as a Service ("SaaS") business model based on recurrent subscription revenues.

For more information, please visit [www.elmosoftware.com.au](http://www.elmosoftware.com.au).