ELMO Software Limited

ABN 13 102 455 087

HALF-YEAR REPORT 2022

For the half-year ended

31 December 2021

Contents

Appendix 4D

ELMO Software Limited
ABN 13 102 455 087
Half-year ended 31 December 2021 (H1 FY22)
(Previous corresponding period: Half-year ended 31 December 2020 (H1 FY21))

ASX Appendix 4D

Results for announcement to the market

	31 Dec 2021 $'000	31 Dec 2020 $'000	%
Revenues from ordinary activities	43,078	30,581	41%
Net loss after tax attributable to equity owners	(40,322)	(12,427)	224%
Adjusted loss after tax[1]	(17,540)	(10,952)	60%

1. Loss after tax adjusted for equity-based expenses being change in fair value of contingent consideration of $17.1 million (H1 FY21: $nil) and the share-based payment expense of $5.7 million (H1 FY21: $1.5 million).

Dividends

No dividend was paid or proposed during the half-year ended 31 December 2021 (2020: $nil).

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

Other information

	31 Dec 2021 cents	31 Dec 2020 cents
Net tangible (liabilities)/assets per ordinary security	(50.19)	9.32
Loss per share	(45.03)	(14.41)
Adjusted loss per share[1]	(19.59)	(12.70)

1. Loss after tax adjusted for equity-based expenses being change in fair value of contingent consideration of $17.1 million (H1 FY21: $nil) and the share-based payment expense of $5.7 million (H1 FY21: $1.5 million).

The net tangible asset per ordinary security is calculated based on 90,024,707 ordinary shares on issue at 31 December 2021 and 89,223,315 shares that were in existence at 31 December 2020. Net tangible assets includes the right-of-use assets, lease liabilities and contract assets in the above calculation.

There were no entities where control was either gained or lost during the half year ended 31 December 2021.

Other information requiring disclosure to comply with ASX listing rule 4.2A.3 is contained in and should be read in conjunction with the Financial Statements, the notes to the Financial Statements and the Directors' Report for the half-year ended 31 December 2021 attached to this report.

This report is based on the Consolidated Financial Statements and Notes of ELMO Software Limited which have been reviewed by Grant Thornton Audit Pty Limited.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or the 'Group') consisting of ELMO Software Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2021 (H1 FY22).

Directors

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

Barry Lewin
Danny Isaac Lessem
Kate Hill
Leah Graeve

Dividends
No dividend was paid during the half-year ended 31 December 2021 (2020: $nil).

Operating and financial review

Principal activities

The ELMO Group provides human capital management (HCM) solutions to mid-market and small business organisations across Australia, New Zealand and the United Kingdom. The Company operates on a Software-as-a-Service (SaaS) business model predicated on subscription license fees.

The Group operates two fit-for-purpose platforms to cater for two market segments. The ELMO mid-market business has more than 3,000 customers and targets organisations with 50 to 2,000 employees. The Breathe small business platform has more than 10,000 customers and focuses on organisations with fewer than 50 employees.

The ELMO Group employs over 550 employees in offices across Australia, New Zealand and the UK with the vision to create best-in-class technology to assist small and mid-market businesses to better manage their people, pay and processes and shape the workplace of tomorrow.

The Group's competitive advantage is the width of the solution. With a wide variety of modules available, customers on each platform can rely on one provider to automate their people, process and pay functions. These solutions assist businesses to operate efficiently by automating manual processes while providing robust information to help businesses make more informed decisions.

The ELMO Group has a customer centric focus and continually invests in enhancing and growing the solution to meet businesses' evolving HCM needs. The Company continues to pursue a three-pillar growth strategy to provide long term sustainable growth that focuses on segment, module and geographic expansion.

Significant changes during the half-year

During H1 FY22 ELMO announced increased capital flexibility to continue to support the execution of growth strategies. The increased flexibility consisted of the following components:

- Increase in the existing debt facility with CBA by $11.0 million; and
- Conversion of the cash component of the Webexpenses earnout to a share-based payment.

On 23 November 2021 Grant Thornton Audit Pty Ltd was appointed as auditor for the Company.

Financial and operational performance for the year

Highlights

The ELMO Group has experienced significant growth across the key metrics of Annualised Recurring Revenue (ARR), revenue and underlying EBITDA through H1 FY22 when compared to the six months to 31 December 2020 (H1 FY21). The statutory loss after tax for the half-year was $40.3 million and is reconciled to the underlying EBITDA on page 5.

ARR and Revenue

The Group achieved a record ARR of $98.3 million, an increase of 32.5% compared to the prior half-year (H1 FY21: $74.2 million). The growth in ARR was driven by the return of business confidence and the increase in businesses adopting hybrid and remote based working. The shift in businesses operating models is driving an increase in rate of digitisation of HR systems and the adoption of cloud-based HR technology to help with the management of the workforce. This shift is contributing to the organic growth driven across both the mid-market (ELMO) and small business (Breathe) operations.

Mid-market growth rates continue to return to pre-COVID levels with annualised ARR growth of 34% through the six months to 31 December 2021. Key drivers to the growth included securing new customers, the upsell to existing customers and a reduction in the rate of lost customers.

The small business segment has continued to experience accelerated growth rates of over 40% on an annualised basis. The majority of growth was driven through winning new customers and this was complemented through the cross sell of additional modules which have been introduced over the past twelve months.

The growth in ARR translated to revenue increasing to $43.1 million, an increase of 41% compared to the prior half-year (H1 FY21: $30.6 million). The gross profit margin has remained high at 85%.

Underlying EBITDA

ELMO achieved an underlying EBITDA of $0.3 million, an improvement of $0.9 million compared to the prior half-year (H1 FY21: loss of $0.6 million). The growth in underlying EBITDA was driven by:

- revenue growth; coupled with
- increased operating cost leverage across sales & marketing, research & development (R&D) and general & administrative expenses.

Net loss

The net loss before significant items was $17.0 million, compared with a loss of $12.2 million in the prior half-year. The increase in the loss was driven by the factors outlined above coupled with the additional amortisation expense relating to the investment in R&D through this half-year and prior half-year.

The total net loss for the period, including the items above was $40.3 million (H1 FY21: $12.4 million) which included the increase in fair value for equity based earn out payments of $17.1 million and non-cash share-based payments of $5.7 million.

Capital management

ELMO is well capitalised to fund future growth initiatives and as at 31 December 2021 held a cash and term deposits balance of $58.4 million.

The total cash receipts from customers through H1 FY22 totalled $56.0 million reflecting a 63% increase compared to H1 FY21 (H1 FY21: $34.4 million).

During H1 FY22 ELMO enhanced its capital structure through securing an additional debt facility of $11.0 million with the Commonwealth Bank of Australia and converting the cash component of contingent consideration from a cash-based payment to equity settled.

Consolidated results summary

A$ million	H1 FY22	H1 FY21
Revenue	43.1	30.6
Gross profit[1]	36.5	27.1
Gross profit %	85%	89%
Underlying EBITDA[2]	0.3	(0.6)
Depreciation and amortisation[3]	(17.9)	(11.5)
Net finance cost	0.3	(0.2)
Taxation	0.3	0.1
Net loss before significant items	(17.0)	(12.2)
Significant items[4]	(23.3)	(0.2)
Net loss after tax attributable to equity owners	(40.3)	(12.4)
Cents per share		
Loss per share pre significant items	*(18.96)*	*(14.13)*
Loss per share	*(45.03)*	*(14.41)*

1. *Gross profit shown above excludes non-cash share-based payments of $0.3 million and sales commission amortisation of $1.7 million which are included within cost of sales in the statutory cost of sales on page 8.*
2. *Underlying EBITDA is a key measure of the underlying performance of the Group.*
3. *Depreciation and amortisation includes amortisation of contract assets within cost of sales.*
4. *Significant items relate to changes in the fair value of contingent consideration of $17.1 million (H1 FY21: nil), non-cash share-based payments of $5.7 million (H1 FY22: $1.5 million), share of loss of associate of $0.2 million (H1 FY22: $0.2 million), restructuring and consulting costs of $0.3 million (1H FY22: $0.2 million) and non-recurring other income of $nil (1H FY22: $1.7 million).*

Basis of preparation

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

Annualised Recurring Revenue is calculated at a point in time and, in this report, reflects the annualisation of revenue at 31 December 2021 and 31 December 2020.

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

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Rounding off amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

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

On behalf of the directors

Barry Lewin	Danny Lessem
Chairman	Director

14 February 2022
Sydney

Grant Thornton

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration

To the Directors of ELMO Software Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of ELMO Software Limited for the half-year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

S M Coulton
Partner – Audit & Assurance

Sydney, 14 February 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income or Loss
For the half-year ended 31 December 2021

	Note	Consolidated 31 December 2021 $'000	Consolidated 31 December 2020 $'000
Revenue from contracts with customers	*3*	43,078	30,581
Cost of sales		(8,563)	(4,450)
Gross profit		34,515	26,131
Other income		13	1,787
Sales and marketing expenses		(19,605)	(13,360)
Research and development expenses		(9,849)	(5,183)
General and administrative expenses		(12,049)	(9,652)
Depreciation and amortisation expense		(16,200)	(10,650)
Impairment loss on trade receivables		(505)	(1,237)
Changes to fair value of contingent consideration		(17,060)	-
Finance income		1,561	418
Finance costs		(1,231)	(574)
Share of loss from joint venture		(204)	(246)
Loss before income tax benefit		(40,614)	(12,566)
Income tax benefit		292	139
Loss after income tax benefit for the half-year attributable to the owners of ELMO Software Limited		(40,322)	(12,427)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(221)	(529)
Total comprehensive loss for the half-year attributable to the owners of ELMO Software Limited		(40,543)	(12,956)
Loss per share		**Cents**	**Cents**
From continuing operations			
Basic earnings	*4*	(45.03)	(14.41)
Diluted earnings	*4*	(45.03)	(14.41)

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

Consolidated Statement of Financial Position
As at 31 December 2021

	Note	Consolidated 31 December 2021 $'000	Consolidated 30 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		38,179	66,944
Term deposit		20,250	15,000
Trade and other receivables		12,569	13,724
Derivative financial instruments		-	400
Contract assets		8,583	6,192
Other current assets		3,777	3,567
Finance lease receivable		-	82
Total current assets		83,358	105,909
Non-current assets			
Investment in jointly controlled entity		834	1,037
Property, plant and equipment		8,856	8,422
Intangible assets	*5*	177,642	177,217
Contract assets		5,878	5,186
Right-of-use assets		23,915	18,774
Total non-current assets		217,125	210,636
Total assets		300,483	316,545
Liabilities			
Current liabilities			
Trade and other payables		13,904	14,644
Deferred and contingent consideration	*7*	31,523	35,234
Lease liabilities		5,055	4,041
Employee benefits		4,473	4,494
Current tax liabilities		607	441
Contract liabilities		34,251	32,545
Total current liabilities		89,813	91,399
Non-current liabilities			
Loans and borrowings	*6*	40,500	30,000
Deferred and contingent consideration	*7*	313	313
Lease liabilities		24,677	20,155
Employee benefits		1,043	799
Deferred tax		4,725	5,002
Contract liabilities		6,955	2,031
Total non-current liabilities		78,213	58,300
Total liabilities		168,026	149,699
Net assets		132,457	166,846
Equity			
Share capital	*8*	238,818	235,695
Reserves		8,375	5,565
Accumulated losses		(114,736)	(74,414)
Total equity		132,457	166,846

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

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2021

	Issued capital $'000	Foreign currency reserves $'000	Share-based payment reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	214,156	99	1,781	(36,788)	179,248
Loss after income tax benefit for the half-year	-	-	-	(12,427)	(12,427)
Other comprehensive loss for the half-year	-	(529)	-	-	(529)
Total comprehensive loss for the half-year	-	(529)	-	(12,427)	(12,956)
Transactions with owners in their capacity as owners					
Shares issued under business combinations	21,223	-	-	-	21,223
Vesting of performance rights and options	316	-	-	-	316
Reserves					
Equity-settled share-based payment	-	-	1,170	-	1,170
Shares purchased by trust	-	-	(2,000)	-	(2,000)
Balance at 31 December 2020	235,695	(430)	951	(49,215)	187,001
Balance at 1 July 2021	235,695	866	4,699	(74,414)	166,846
Loss after income tax benefit for the half-year	-	-	-	(40,322)	(40,322)
Other comprehensive loss for the half-year	-	(221)	-	-	(221)
Total comprehensive loss for the half-year	-	(221)	-	(40,322)	(40,543)
Transactions with owners in their capacity as owners					
Vesting of performance rights	3,123	-	-	-	3,123
Reserves					
Equity-settled share-based payment	-	-	3,031	-	3,031
Balance at 31 December 2021	238,818	645	7,730	(114,736)	132,457

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

Consolidated Cash Flow Statement
For the half-year ended 31 December 2021

	Note	Consolidated 31 December 2021	Consolidated 31 December 2020
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		56,002	34,384
Payments to suppliers and employees (inclusive of GST)		(52,431)	(39,932)
Other income received		-	3,888
Income taxes refunded		167	65
Net cash from/(used in) operating activities		3,738	(1,595)
Cash flows from investing activities			
Interest received		11	430
Receipt of lease incentive		-	1,078
Payment of transaction costs for acquisitions		(22)	(1,686)
Payment of deferred consideration from acquisitions in the prior period	*7*	(21,273)	(5,339)
Payment for acquisition of businesses, net of cash acquired		-	(44,660)
Payments for property, plant and equipment		(1,847)	(1,981)
Payments for intangibles		(11,759)	(10,223)
Net cash used in investing activities		(34,890)	(62,381)
Cash flows from financing activities			
Proceeds from exercise of share options		383	10
Share issue transaction costs		(61)	(243)
Proceeds from borrowings		10,500	-
Transfer to term deposit		(20,250)	-
Repayment of borrowings		(37)	-
Loans and borrowings transaction costs		(285)	
Shares purchased by trust		-	(2,000)
Repayment of lease liabilities		(3,027)	(2,374)
Net cash generated used in financing activities		(12,777)	(4,607)
Net decrease in cash and cash equivalents		(43,929)	(68,583)
Cash and cash equivalents at the beginning of the half-year		81,944	139,887
Effect of exchange differences on cash balances		164	40
Cash and cash equivalents at the end of the half-year		38,179	71,344
Term deposits		20,250	-
Cash and term deposits		58,429	71,344

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

Notes to the financial statements
Note 1. Basis of Preparation

ELMO Software Limited is a for-profit entity for the purpose of preparing the half-year financial report.

This interim financial report for H1 FY22:

- is for the consolidated entity consisting of ELMO Software Limited and its controlled entities;
- is presented in Australian dollars, with all values rounded to the nearest thousand dollars in accordance with the Australian Securities and Investment Commission Corporations Instrument 2016/191;
- has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*;
- has been prepared on a historical cost basis except for derivative financial assets, contingent consideration liabilities and share-based payment transactions which are stated at their fair value; and
- does not include all the notes of the type normally included in an annual financial report. Accordingly this report should be read in conjunction with the Annual Report for the year ended 30 June 2021 and any public announcements made by ELMO Software Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

For H1 FY22 contract assets of $14.5 million have been recognised and presented in accordance with AASB 15, *Revenue from customer* contracts, in relation to implementation costs and sales commissions which were previously presented as intangible assets. Consequently the presentation for the prior half-year period has been restated by $11.4 million in order for presentation to be consistent. With the exception of the above restatement, accounting policies adopted are consistent with those of the previous financial year and corresponding half-year reporting period.

The Consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due. As at 31 December 2021 the Group has a cash balance of $58.4 million including term deposits with net current liabilities of $6.5 million but this includes non-cash elements of contract liabilities for deferred subscription revenue of $34.3 million and contingent consideration to be settled in shares of $31.0 million.

Accounting policy

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

For H1 FY22 the Group operated in two distinct segments being:
- Small business solution providing a self-service HR platform;
- Mid-market solution providing a range of modular software applications to efficiently manage HR and pay.

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

Note 2. Operating segments (continued)

H1 FY22	Small business solution $'000	Mid-market solution $'000	Total $'000
Segment revenue	5,085	37,993	43,078
Share of loss from joint venture	-	(204)	(204)
Net finance income			330
Depreciation and amortisation			(16,200)
Share-based payments			(5,722)
Fair value adjustment to contingent consideration			(17,060)
Loss before tax			(40,614)
Segment assets	46,286	254,197	300,483
Segment liabilities	(5,156)	(162,870)	(168,026)

H1 FY21	Small business solution $'000	Mid-market solution $'000	Total $'000
Segment revenue	1,740	28,841	30,851
Share of loss from joint venture	-	(246)	(246)
Net finance costs			(156)
Share-based payments			(1,475)
Depreciation and amortisation			(10,650)
Loss before tax			(12,566)
Segment assets	43,928	246,819	290,747
Segment liabilities	(2,800)	(100,946)	(103,746)

Major customers

During the half-years ended 31 December 2021 and 31 December 2020 no single customer contributed 10% or more to the Group's external revenue.

Geographical information	Revenue from external customers		Geographical non-current assets	
	31 Dec 2021 $'000	31 Dec 2020 $'000	31 Dec 2021 $'000	30 Jun 2021 $'000
Australia	30,010	25,311	99,219	92,153
New Zealand	3,042	2,631	12,554	12,905
United Kingdom	9,871	2,619	105,021	105,250
Others	155	20	331	328
	43,078	30,581	217,125	210,636

Note 3. Revenue from contracts with customers

Accounting policy

The Group applies the following five steps in recognising revenue from contracts with customers:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to performance obligations based on their relative standalone selling price; and
5. Recognise revenue when, or as, performance obligations are satisfied

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 integration ("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 have been identified as being distinct from others in the contract as they are not dependent on or interrelated with other obligations in the 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 as services provided.

(iii) Contract balances

The timing of revenue recognition, customer invoicing and cash collections results in trade receivables and deferred revenue (contract liabilities) recognised on the Group's Consolidated statement of financial position. Contract assets are recognised for implementation costs and sales commissions incurred to fulfil customer contracts and amortised over the life of the contract.

Note 3. Revenue from contracts with customers (continued)

	Small business solution		Mid-market solution		Total	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Revenue recognised at a point in time	-	-	979	792	979	792
Revenue recognised over time	5,085	1,740	37,014	28,049	42,099	29,789
Total revenue	5,085	1,740	37,993	28,841	43,078	30,581

Note 4. Loss per share

	Consolidated	
	31 December 2021 $'000	31 December 2020 $'000
Loss after income tax	(40,322)	(12,427)
	Cents	Cents
Basic loss per share	(45.03)	(14.41)
Diluted loss per share	(45.03)	(14.41)

The calculation of EPS has been based on the 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 half-year.

	31 December 2021 $'000	31 December 2020 $'000
Weighted average number of ordinary shares used in calculating loss per share	89,545,824	86,265,360

Note 5. Intangible assets

Accounting policy

(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.

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 and are tested for impairment.

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

Software development costs	3-5 years
Customer lists	7-10 years

Note 5. Intangible assets (continued)

Accounting policy (continued)

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 benefit 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.

	Consolidated	
	31 December 2021 $'000	30 June 2021 $'000
Software development costs	86,688	75,484
Less: Accumulated amortisation	(48,581)	(37,562)
	38,107	37,922
Customer list (acquired through business combinations)	19,213	19,084
Less: Accumulated amortisation	(5,836)	(4,717)
	13,377	14,367
Goodwill (acquired through business combinations)	118,785	117,650
Trademarks (acquired through business combinations)	7,373	7,278
	177,642	177,217

Note 5. Intangible assets (continued)

Consolidated	Software development costs $'000	Customer list $'000	Goodwill $'000	Trademarks $'000	Total $'000
Balance at 1 January 2021	29,046	10,266	128,805	3,202	171,319
Additions	10,649	-	-	-	10,649
Additions through business combinations	8,010	5,026	(13,314)	3,913	3,635
Amortisation expense	(10,009)	(1,150)	-	-	(11,159)
Effect of movements in exchange rates	226	225	2,159	163	2,773
Balance at 30 June 2021	37,922	14,367	117,650	7,278	177,217
Additions	10,941	-	-	-	10,941
Amortisation expense	(10,924)	(1,112)	-	-	(12,036)
Effect of movements in exchange rates	168	122	1,135	95	1,520
Balance at 31 December 2021	38,107	13,377	118,785	7,373	177,642

An impairment loss, if any, is recognised for the amount by which the carrying amount exceeds its recoverable amount. As at 31 December 2021 there are no indicators to suggest that an impairment would occur.

Note 6. Loans and borrowings

	Consolidated	
	31 December 2021 $'000	**30 June 2021 $'000**
Non-current liabilities		
Secured bank loans	40,500	30,000

On 14 December 2021 the Group secured an increase in the existing debt facility with the Commonwealth Bank of Australia (CBA) of $11.0 million, of which $10.5 million had been drawn down as at 31 December 2021.

Note 7. Contingent consideration

Accounting policy

The consideration transferred in a business combination 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.

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 are recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

	Consolidated	
	31 December 2021 $'000	**30 June 2021 $'000**
Opening balance as at 1 July	35,547	6,102
Settlement of HROnboard	-	(5,603)
Acquisition of Breathe	-	7,276
Acquisition of Webexpenses	-	23,183
Settlement of Breathe	(21,273)	-
Changes to fair value in contingent consideration	17,060	3,866
Changes in foreign exchange rate	502	723
Closing balance *(i)*	31,836	35,547
Due in less than 1 year	31,523	35,234
Due in more than 1 year	313	313

(i) Includes $30.9 million to be settled in shares for Webexpenses contingent consideration

The adjustment to the fair value of contingent consideration in relation to the Webexpenses acquisition is due to the combination of a three-month extension to the earn-out period coupled with growth in the UK economy following removal of restrictions. These factors have contributed to significant growth for Webexpenses in the half-year which is expected to continue for the remaining earn-out period.

The Group has no other contingent liabilities, except for the acquisition related contingent consideration disclosed above.

Note 8. Equity: share capital and reserves

Ordinary shares issued and fully paid	**Shares**	**$'000**
At 1 July 2021	**89,223,315**	**235,695**
Exercise of unlisted options	152,889	-
Vesting of performance rights	648,503	3,123
At 31 December 2021	**90,024,707**	**238,818**

Note 8. Equity: share capital and reserves (continued)

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.

Reserves

	Consolidated	
	31 December 2021 $'000	**30 June 2021 $'000**
Foreign exchange translation reserve	645	866
Share-based payment reserve	7,730	4,699
	8,375	5,565

Note 9. Key management personnel

Remuneration arrangements for key management personnel are detailed in the annual report as at 30 June 2021 with the structure of the short-term incentive plan (STI Plan) and long-term incentive program (LTI Program) having been outlined in the Remuneration Report as at that date.

In addition, an expense has been recorded in relation to share-based payments of $494,219 in relation to key management personnel with a corresponding increase in the share-based payment reserve during the half-year ended 31 December 2021 (2020: $47,984)**.**

Note 10. Related party transactions

Parent entity
ELMO Software limited is the parent entity.

Subsidiaries
Interests in subsidiaries are disclosed in the annual report as at 30 June 2021 with no changes since this reporting date.

Key management personnel
Disclosures relating to key management personnel are set out in note 9.

Other related party transactions
In the half-year ended 31 December 2021 amounts of $3,054,917 were paid to the Group's jointly controlled entity, Hero Brands Pty Limited in relation to development costs (2020: $2,343,000).

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

Note 11. Events after the reporting period

No matter or circumstance which has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Directors

Barry Lewin
Chairman

Danny Lessem
Director

14 February 2022
Sydney

Grant Thornton

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report

To the Members of ELMO Software Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of ELMO Software Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

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

(a) giving a true and fair view of ELMO Software Limited's financial position as at 31 December 2021 and of its performance for the half year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

S M Coulton
Partner – Audit & Assurance

Sydney, 14 February 2022