



ELMO Software Limited

ACN 102 455 087

# PROSPECTUS

Initial Public Offering of Ordinary Shares

Lead Manager and Underwriter

WILSONS

Financial Adviser

 **blackpeak**  
capital



# Important Information

## Offer

This prospectus is issued by ELMO Software Limited ACN 102 455 087 (**ELMO** or **Company**).

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in ELMO (**Shares**).

## Lodgement and listing

This Prospectus is dated 6 June 2017 (**Prospectus Date**) and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date.

ELMO will apply to ASX within seven days of the Prospectus Date for admission of the Company to the Official List and for quotation of its Shares on ASX. None of ASIC, ASX or their respective officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

## Expiry date

No Shares will be issued on the basis of this Prospectus later than 13 months after the Prospectus Date.

## Not investment advice

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation and particular needs (including financial and tax issues) of any prospective investor.

## Consider risks of investment

It is important that you read this Prospectus carefully and in full before deciding whether or not to invest in the Company. In particular, in considering the prospects of ELMO, you should consider the best estimate assumptions underlying any Forecast Financial Information (as defined in Section 4) and the sensitivities associated with that information also set out in Section 4 and any forward looking statement, together with the risk factors that could affect the Company's business, financial condition and results of operations. Some of the risk factors that should be considered by prospective investors are set out in Sections 1.5 and 5 of this Prospectus. You should consider these factors carefully in light of your investment objectives, financial situation and particular needs (including financial and taxation issues). There may be risk factors in addition to these that should be considered in light of your personal circumstances. If you have any queries in connection with this Prospectus or in relation to an investment in the Company, you should seek advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether or not to invest in the Shares.

## Disclosing entity

If admitted to the Official List, ELMO will be a disclosing entity for the purposes of the Corporations Act and, as such, will be subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules.

## Disclaimer

Except as required by law, and only to the extent so required, neither the Company, nor any other person warrants or guarantees the future performance of ELMO, the repayment of capital by ELMO, or the payment of a return on the Shares.

No person is authorised to give any information or to make any representation in connection with the Offer which is not included in this Prospectus. Any information or representation not included in this Prospectus may not be relied on as having been authorised by ELMO, the directors of ELMO (**Directors**) or any other person involved in the preparation of the Prospectus or the making of the Offer. In making any investment decision you should rely only on the information in this Prospectus.

## Exposure Period

The Corporations Act prohibits ELMO from processing applications to acquire Shares under this Prospectus (**Applications**) in the seven-day period after lodgement of the Prospectus with ASIC (**Exposure Period**). The Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable

the Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on Applications received during the Exposure Period.

During the Exposure Period, this Prospectus will be made available to Australian residents, without the Application Form, at the Company's website, [www.elmotalent.com.au](http://www.elmotalent.com.au).

## Obtaining a copy of this Prospectus

A copy of the Prospectus is available free of charge during the Offer Period to any person in Australia by calling the ELMO Offer Information Line on 1800 812 642 (toll free within Australia) or +61 1800 812 642 (outside of Australia) between 8.30am and 5.30pm (Sydney time) Monday to Friday (business days only) during the Offer Period.

This Prospectus is also available to Australian resident investors in electronic form at [www.elmotalent.com.au](http://www.elmotalent.com.au). The Offer constituted by this Prospectus in electronic form is available only to Australian residents accessing the website within Australia. Hard copy and electronic versions of this Prospectus are generally not available to persons in other jurisdictions.

## Statements of past performance

This Prospectus includes information regarding the past performance of ELMO. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

## Financial information and amounts

Section 4 of this Prospectus sets out in detail the Financial Information referred to in this Prospectus. The basis of preparation of the Financial Information is set out in Section 4.2.

All references to FY14, FY15, FY16, FY17 and FY18 appearing in this Prospectus are to the financial years ended or ending 30 June 2014, 30 June 2015, 30 June 2016, 30 June 2017, and 30 June 2018, respectively, unless otherwise indicated.

The Historical Financial Information is presented on both an actual and pro forma basis and has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards (including the Australian Accounting Interpretations) issued by the Australian Accounting Standards Board, which are consistent with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board (IFRS).

This Prospectus also includes Forecast Financial Information based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Historical Financial Information. The Forecast Financial Information presented in this Prospectus is presented on both a statutory and pro forma basis and is unaudited. The Financial Information is presented in abbreviated form. It does not include all of the presentation and disclosures required by the Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act. The Financial Information in this Prospectus should be read in conjunction with, and is qualified by reference to, the information contained in Sections 4 and 10.

All financial amounts contained in this Prospectus are expressed in Australian dollars and rounded to the nearest \$'000 (thousand) unless otherwise stated. Some numerical figures included in this Prospectus have been subject to rounding adjustments. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

## Non-IFRS financial information

Investors should be aware that certain financial data included in this Prospectus is "non-IFRS financial information" under Regulatory Guide 230 Disclosing non-IFRS financial information, published by ASIC. The Company believes this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of the Company. The non-IFRS measures do not have standardised meanings prescribed by Australian Accounting Standards and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. Investors are cautioned, therefore, not to place undue reliance on any non-IFRS financial information and ratios included in this Prospectus.

## Investigating accountant's report on historical financial information and on forecast financial information and financial services guide

The provider of the Investigating Accountant's Report on Historical Financial Information and on Forecast Financial Information is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act (**Financial Services Guide**). The Investigating Accountant's Report and accompanying Financial Services Guide are provided in Section 8.

## Forward looking statements

This Prospectus includes Forecast Financial Information based on the best estimate assumptions of the Directors and on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the Prospectus Date, are expected to take place (including the key assumptions set out in Section 4). The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Pro forma Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

This Prospectus contains forward looking statements which may be identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may", and other similar words that involve risks and uncertainties. Certain statements, beliefs and opinions contained in this Prospectus, particularly those regarding the possible or assumed future financial or other performance of ELMO, industry growth or other trend projections are or may be forward-looking statements.

Any forward looking statements are subject to various known and unknown risk factors that could cause ELMO's actual results and circumstances to differ materially from the results and circumstances expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of ELMO or its Directors and Management. Forward looking statements should be read in conjunction with, and are qualified by reference to, risk factors as set out in Sections 1.5 and 5 and other information in this Prospectus.

The Directors and the Lead Manager cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except to the extent required by law.

This Prospectus, including the industry overview in Section 2, uses market data, industry forecasts and projections. The Company has obtained significant portions of this information from market research and commentary prepared by third parties. In particular the

Company commissioned an independent market report from Frost & Sullivan in March 2017, “Human Resource Management Software Market”, a substantial part of which has been used to support statements and information in Section 2 of this Prospectus. There is no assurance that any of the forecasts or forward looking information contained in the reports, surveys and research of such third parties that are referred to in this Prospectus will be achieved. The Company has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the key risk factors in Sections 1.5 and 5.

#### Selling restrictions in foreign jurisdictions

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia.

The taxation treatment of Australian securities, including the Shares, may not be the same as those for securities in jurisdictions outside Australia. If you are uncertain about whether this investment is appropriate for you, you should seek the advice of your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

The distribution of this Prospectus (including in electronic form) outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In particular, this Prospectus may not be released or distributed in the United States. The Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States unless the Shares are registered under the US Securities Act or are offered and sold in transactions exempt from, or not subject to the registration requirements of the US Securities Act and any other applicable securities laws in the United States.

See Section 9.11 for more details on selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside Australia.

#### No cooling off rights

Cooling off rights do not apply to an investment in Shares offered under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application.

#### Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets or products shown in them are, or on Completion of the Offer will be, owned, sold or supplied by ELMO. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

#### Documents available on website

Any references to documents included on ELMO’s website at <http://elmotalent.com.au> are provided for convenience only, and none of the documents or other information available on the website or any other website referred to in the sources contained in this Prospectus, is incorporated in this Prospectus by reference.

#### Defined terms and time

Defined terms and abbreviations used in this Prospectus, unless specified otherwise, have the meanings given in the glossary of this Prospectus at Section 11. Unless otherwise stated or implied, references to times in this Prospectus are to the time in Sydney, Australia.

Unless otherwise stated or implied, references to dates or years are calendar year references.

#### Applications

Applications for Shares under this Prospectus may only be made during the Offer Period on the Application Form included in, or accompanying, this Prospectus in its hard copy form, or in its electronic form which must be downloaded in its entirety from [www.elmotalent.com.au](http://www.elmotalent.com.au), together with an electronic copy of this Prospectus (**Application Form**). By making an Application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is included in, or accompanied by, this Prospectus in its hard copy form or the complete and unaltered electronic copy of this Prospectus. Refer to Section 7 and the Application Form for further information.

As set out in Sections 1.9 and 7, it is expected that the Shares will be quoted on ASX initially on a normal settlement basis. To the extent permitted by law, each of the Company, the Share Registry, and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the ELMO Offer Information Line, by a Broker or otherwise.

#### Privacy

By filling out the Application Form to apply for Shares, you are providing personal information to ELMO and the Share Registry, which is contracted by the Company to manage Applications. ELMO, and the Share Registry on its behalf, may collect, hold, use and disclose that personal information for the purpose of processing your Application, servicing your needs as a Shareholder, providing facilities and services that you need or request and carrying out appropriate administration. If you do not provide the information requested in the Application Form, ELMO and the Share Registry may not be able to process or accept your Application.

Once you become a Shareholder, the Corporations Act and Australian taxation legislation require information about you (including your name, address and details of the Shares you hold) to be included in the Share register of the Company. In accordance with the requirements of the Corporations Act, information on the Share register will be accessible by members of the public. The information must continue to be included in the Share register if you cease to be a Shareholder.

The Company and Share Registry may disclose your personal information from time to time to inform you about other products and services offered by ELMO which they consider may be of interest to you. Your personal information may also be provided to ELMO’s agents and service providers on the basis that they deal with such information in accordance with ELMO’s privacy policy. The agents and service providers of ELMO may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. Agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared include those listed below or as otherwise authorised under the *Privacy Act 1988* (Cth):

- the Share Registry for ongoing administration of the Share register;
- the Lead Manager in order to assess your Application;
- Brokers for the purpose of providing their services;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

Information contained in ELMO’s Share register is also used to facilitate corporate communications (including ELMO’s financial results, annual reports and other information that ELMO may wish to communicate to its Shareholders) and compliance by ELMO with legal and regulatory requirements.

An Applicant has a right to access, correct and update his or her personal information that ELMO and the Share Registry hold about that person, subject to certain exemptions under law. A reasonable fee may be charged for access. Access requests must be made in writing or by telephone call to ELMO’s registered office or the Share Registry’s office, details of which are disclosed in the corporate directory on the final page of this Prospectus. The Company will aim to ensure that the personal information it retains about you is accurate, complete and up to date. To assist with this, please contact the Company or the Share Registry if any of the details you have provided change.

Applicants can obtain a copy of ELMO’s privacy policy by visiting the ELMO website (<http://elmotalent.com.au>). By submitting an Application, you agree that ELMO and the Share Registry may communicate with you in electronic form or contact you by telephone in relation to the Offer.

#### Use of trade marks

This Prospectus includes ELMO’s trade marks. All other trade marks, trade names and service marks appearing in this Prospectus are the property of their respective owners.

#### Questions

If you have any questions about this Prospectus or how to apply for Shares, you should seek advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser. Instructions on how to apply for Shares are set out in Section 7 and on the Application Form. Alternatively, please contact the ELMO Offer Information Line on 1800 812 642 (toll free within Australia) or +61 1800 812 642 (outside of Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday (business days only) during the Offer Period.

**This document is important and should be read in its entirety before making any investment decision.**

#### Contents

Important Information	IFC
Key Offer Information	2
Important dates	2
Key Offer statistics	3
ELMO at a glance	4
Letter from the Chairman	6
1. Investment overview	7
2. Industry overview	22
3. Company overview	30
4. Financial information	51
5. Risks	81
6. Key People, Interests and Benefits	88
7. Details of the Offer	100
8. Investigating Accountant’s Report	109
9. Additional Information	117
10. Summary of key accounting policies	128
11. Glossary	133
Application Forms	138
Corporate directory	IBC



# Key Offer Information

## Important dates

Prospectus Date	<b>Tuesday, 6 June 2017</b>
Broker Firm Offer and Priority Offer open (Opening Date)	<b>Tuesday, 13 June 2017</b>
Broker Firm Offer and Priority Offer close and Applications due (Closing Date)	<b>Tuesday, 20 June 2017</b>
Settlement of the Offer	<b>Wednesday, 21 June 2017</b>
Issue of Shares	<b>Thursday, 22 June 2017</b>
Expected dispatch of holding statements	<b>By Friday, 23 June 2017</b>
Expected commencement of trading on ASX (on a normal settlement basis)	<b>Thursday, 29 June 2017</b>

*Note: This timetable is indicative only and may change. Unless otherwise indicated, all times are stated in Sydney time. The Company, in consultation with the Lead Manager, reserves the right to vary any and all of the above dates and times without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer Period relating to any component of the Offer, or to accept late Applications, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or Applicants). If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens.*

## Key Offer statistics<sup>1</sup>

Offer Price per New Share	<b>\$2.00</b>
Total number of New Shares to be offered under the Offer	<b>12.5 million</b>
Total proceeds of the Offer	<b>\$25.0 million</b>
Total number of Existing Shares prior to the Offer	<b>41.6 million</b>
Total number of Shares on issue at Completion of the Offer <sup>2</sup>	<b>54.1 million</b>
Market capitalisation at the Offer Price <sup>3</sup>	<b>\$108.3 million</b>
Pro forma net cash (as at 31 December 2016) <sup>4</sup>	<b>\$24.3 million</b>
Enterprise value at the Offer Price <sup>5</sup>	<b>\$84.0 million</b>
Enterprise value/pro forma FY18 forecast revenue <sup>6</sup>	<b>3.75x</b>

## How to invest

Applications for Shares can only be made by completing and lodging the Application Form attached to or accompanying this Prospectus.

Instructions on how to apply for Shares are set out in Section 7 of this Prospectus and on the back of the Application Form.

### Notes:





1. This table contains Forecast Financial Information and information derived from the Forecast Financial Information. The Forecast Financial Information is based on assumptions and accounting policies set out in Section 4 and Section 10, and is subject to the key risks set out in Section 5. There is no guarantee that the forecasts will be achieved. Pro forma net cash is calculated as cash and cash equivalents as at 31 December 2016, calculated on a pro forma basis assuming Completion of the Offer. Certain financial information in this Prospectus is described as pro forma for the reasons described in Section 4. Forecasts have been included in this Prospectus for FY17 and FY18.
2. Total number of Shares on issue at Completion of the Offer excludes any Shares to be issued under the Employee Gift Offer.
3. Market capitalisation at the Offer Price is defined as the Offer Price multiplied by the total number of Shares on issue at Completion of the Offer.
4. Pro forma net cash is equivalent as cash and cash equivalents (as at 31 December 2016), calculated on a pro forma basis immediately after Completion of the Offer.
5. Enterprise value at the Offer Price is defined as market capitalisation at the Offer Price, less pro forma net cash of \$24.3 million as at 31 December 2016.
6. The Enterprise value/revenue multiple is calculated as the Enterprise value at the Offer Price divided by pro forma forecast FY18 revenue of \$22.4 million.

# ELMO at a glance

ELMO is one of Australia and New Zealand’s leading providers of integrated talent management software solutions



## END TO END ‘HIRE TO RETIRE’ SOLUTION

RECRUITMENT	ONBOARDING	PERFORMANCE	LEARNING
 Job requisition Talent pool job posting Branded careers webpage	 Personalised onboarding webpage Workflows and approvals Electronic forms	 Performance appraisals Management team view Configurable reports	 Learner’s view Course catalogue Manager team view Configurable reports



Integrated Human Capital Management (HCM) software providing ‘hire to retire’ software solutions

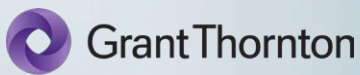


Primarily targets mid-market organisations (100 – 1,000 employees)



Scalable SaaS, cloud-based platform, multi tenant infrastructure, single source code

## ELMO's SaaS, cloud-based platform provides organisations with a centralised approach to managing an employee's lifecycle from 'hire to retire'



### COURSE BUILDER



Create courses  
Create assessments  
Create surveys  
Preview and publish

### PRE-BUILT COURSES



Best practice eLearning content  
Course editor  
Course features  
Assessment features

### SUCCESSION



Ensure business continuity  
Employee career progression  
Foster strategic succession

### HR CORE



Leave management  
Organisation charts  
Employee self-service  
Manager self-service



**Customer base of 472<sup>1</sup> organisations and deployed across 13<sup>2</sup> different industries**



**Platform, technology, software solutions and learning content is developed and maintained in-house by ELMO's Australian based team**



**Over 400 eLearning course content library covering a broad range of topics which has been developed for over 15 years**

1. As at 31 December 2016.

2. Includes construction and mining, education, finance, government, healthcare and pharmaceuticals, hospitality, industrials, IT, telecommunications and media, not for profit organisations, professional services, property, retail and transport.

# Letter from the Chairman

“ELMO is led by a highly regarded and experienced management team that has a track record of achieving significant revenue growth which is supported by the Company’s strong customer retention rates and industry leading talent management software solutions.”



**Dear Investor,**

On behalf of the Directors, it is my pleasure to invite you to consider becoming a Shareholder in ELMO Software Limited (**ELMO** or the **Company**).

ELMO is a leading provider of Software-as-a-Service (**SaaS**), cloud-based talent management software solutions in Australia and New Zealand. The Company develops, sells and implements talent management software solutions that enable organisations to automate many of the HR processes and functions to efficiently manage the various stages of an employee’s lifecycle from hire to retire. ELMO currently offers seven different modules covering recruitment, onboarding, performance management, learning and development, pre-built courses, succession planning and employee administration.

ELMO was founded in 2002 as an eLearning platform focused on providing employee development content and compliance. Since then, driven by client demand, ELMO expanded its platform to address the evolving requirements of the Human Capital Management (**HCM**) industry by offering a broader suite of modular applications to cover a wider range of talent management needs. Research and development remains at ELMO’s core with continual investment in the development of new HCM modules and the enhancement of its existing platform.

ELMO’s solutions have been built and designed for wide spread adoption across multiple industries and geographies. Today, the Company addresses the HCM requirements of various Government organisations and small to large sized corporations across Australia, New Zealand and Singapore.

ELMO is led by a highly regarded and experienced management team that has a track record of achieving significant revenue growth which is supported by the Company’s strong customer retention rates and industry leading talent management software solutions. Over 93% of ELMO’s revenue is generated from the sale of its SaaS solutions which enables the Company to generate high incremental profit margins from additional software and services sold. This provides ELMO with an attractive platform to benefit from continued economies of scale.

ELMO has a multi-pillar growth strategy based on the upsell of further modules to existing customers, ongoing growth in new customers, new product development to expand the existing platform, additional bolt-on acquisitions as well as geographic expansion.

ELMO is seeking to raise \$25.0 million through the issue of 12.5 million Shares at \$2.00 per Share. The purpose of the Offer is to provide funding to support the Company’s growth strategy, broaden ELMO’s Shareholder base and provide the Company with the benefits of an increased profile as an ASX listed entity.

Upon completion of the Offer, new Shareholders are expected to hold 23.1% of the Shares and Existing Shareholders, including Management, will retain 76.9% of Shares, all of which are expected to be escrowed for 24 months from the date of admission of ELMO to ASX.

This Prospectus contains important information in relation to the Offer, the historical and forecast financial results of ELMO as well as the operations, management team and future plans of ELMO. The key risks associated with an investment in the Company are contained in Section 5, which should be considered in detail. I encourage you to read the Prospectus carefully before making any investment decision and consult with your independent professional adviser in connection with the Offer.

On behalf of my fellow Directors, I look forward to welcoming you as a Shareholder of ELMO.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. McKerlie', followed by a long horizontal line.

**Jim McKerlie**  
Chairman





# 1 INVESTMENT OVERVIEW

# 1 Investment overview

## 1.1 Introduction

Topic	Summary	For more information
<b>What is ELMO?</b>	<p>ELMO is one of Australia and New Zealand's leading providers of SaaS, cloud-based talent management software solutions.</p> <p>ELMO's talent management software solutions enable organisations to manage the lifecycle of an employee from hire to retire on a single integrated platform. The Company develops, sells and implements a range of modular software applications to efficiently manage human resource (<b>HR</b>) related processes including recruitment, onboarding, performance management, learning and development and succession planning. ELMO also provides HR Core, a software module which organisations use for people management and employee self-service. ELMO's solutions assist organisations to better address and adapt to the complexities of the HCM industry while increasing their productivity and reducing costs.</p> <p>ELMO's solutions are used by 472<sup>1</sup> organisations across 13<sup>1,2</sup> different industries in Australia, New Zealand and Singapore.</p>	<a href="#">Section 3.1</a>
<b>What is ELMO's history?</b>	<p>ELMO was founded in 2002 for the purpose of providing an eLearning platform with customised content for compliance and training. Since inception, ELMO's solutions have been built and developed using a SaaS, cloud-based infrastructure. Over time, ELMO expanded its platform to offer a broader suite of talent management software solutions to service the changing requirements of the HR function.</p> <p>Throughout ELMO's history, the Company's core focus has been on ongoing technology innovation and product development with continual investment in research and development. In FY16, ELMO invested approximately 16%<sup>3</sup> of the Company's pro forma revenue towards research and development.</p> <p>The Company's IP and proprietary platform is wholly owned by ELMO and has been developed in-house by its Australian based internal development team.</p>	<a href="#">Section 3.1</a> , <a href="#">Section 3.2</a> and <a href="#">Section 4.4</a>
<b>Where does ELMO operate?</b>	<p>ELMO currently provides its talent management software solutions to organisations in Australia, New Zealand and Singapore. ELMO's platform has been built and designed on a globally scalable infrastructure and has a multi-jurisdictional compatible eLearning course library that can be translated into almost any language.</p>	<a href="#">Section 3.1</a> , <a href="#">Section 3.2</a> and <a href="#">Section 3.8.5</a>

1. As at 31 December 2016.

2. Includes construction and mining, education, finance, government, healthcare and pharmaceuticals, hospitality, industrials, IT, telecommunications and media, not for profit organisations, professional services, property, retail and transport.

3. Includes both expensed and capitalised research and development costs.

## 1.2 Key features of ELMO's business model

Topic	Summary	For more information
<b>What is ELMO's business model and how does it generate revenue?</b>	<p><b>1. Target mid-market organisations</b></p> <p>ELMO's talent management software solutions and business model have been primarily built to address the HCM requirements of mid-market organisations, which are organisations that employ between 100 and 1,000 employees. ELMO believes mid-market organisations require a more flexible and cost effective talent management solution that can be delivered on shorter sales cycles, with simpler implementation processes than those currently provided by HCM solution providers focused on larger enterprises.</p> <p><b>2. Multi-jurisdictional and industry agnostic</b></p> <p>ELMO's talent management software solutions have been designed to be scalable on a global basis with its industry agnostic platform which can be configured to accommodate the requirements of almost any jurisdiction.</p> <p><b>3. Revenue generation</b></p> <p>ELMO generates its revenue from the sale of its talent management software solutions. Customers pay ELMO on a subscription basis and typically enter into three year contracts with the Company for access to its solutions. It is customary for ELMO to be paid annually in advance by the customer. The amount of the annual fee is dependent on the number of modules subscribed for by the customer and the number of users on the platform.</p> <p>The Company accounts for revenue by recognising the annual amount over the twelve months of the contract. As a result, cash received is normally higher than revenue recognised. The Company's accounting policy for revenue recognition is summarised in Section 10 of this Prospectus.</p> <p>In addition to subscription-based fees, ELMO also generates revenue from charging professional service fees for providing non-standard implementation, configuration, integration and other services.</p>	<a href="#">Section 3.5</a>
<b>Who uses ELMO's products?</b>	<p>ELMO's talent management software solutions have been built for widespread adoption and to address the HCM requirements of multiple industries. As at 31 December 2016, ELMO provided its solutions to a customer base of 472 organisations which include government departments, agencies and authorities at the Federal, State and Local level as well as large and mid-market organisations operating across 13<sup>4</sup> different industries in Australia, New Zealand and Singapore.</p>	<a href="#">Section 3.7</a>
<b>How does ELMO sell its products?</b>	<p>ELMO adopts a strategic approach to acquiring new customers and upselling additional modules to its existing customer base. ELMO allocates its sales and marketing budget across various channels, in order to increase ELMO's brand and product awareness and generate new customer leads.</p> <p>The Company's sales and marketing team of 38 individuals adopts a marketing approach focused on HR leaders within organisations as the target buyer. The sales division is divided into two core teams, one focused on new customer acquisition and the other focused on expanding revenue generated from existing customers.</p> <p>ELMO has developed an established brand and reputation within the HR industry for its talent management software solutions. ELMO believes that this reputation has assisted in generating a portion of new customers through referrals from the Company's existing customer base thereby lowering customer acquisition costs.</p>	<a href="#">Section 3.6</a>
<b>Why do customers select ELMO?</b>	<p>ELMO's talent management software solutions automate many of the key HCM activities and processes for HR managers and as a result contribute to employee productivity improvements and time and cost savings for organisations.<sup>5</sup></p> <p>ELMO's solutions and platform have been optimised for mid-market organisations and offer a more cost effective, user-friendly and fast and simple to implement HCM software solution compared to on-premise systems and enterprise HCM solutions.<sup>5</sup></p> <p>Another differentiator of ELMO's solutions compared to alternative solutions is its extensive course library which has been developed over 15 years and currently provides over 400 eLearning courses covering a broad range of topics.</p> <p>Additionally, ELMO also offers a full suite of talent management software solutions that address various stages of an employee's lifecycle from hire to retire on a single integrated cloud-based platform.</p>	<a href="#">Section 2.4,</a> <a href="#">Section 3.3,</a> <a href="#">Section 3.4 and</a> <a href="#">Section 3.5</a>
<b>What is ELMO's proprietary intellectual property?</b>	<p>ELMO's IP includes the source code of products developed by the Company and the processes and technology involved in delivering those products to market.</p>	<a href="#">Section 3.9.6</a>

4. Includes construction and mining, education, finance, government, healthcare and pharmaceuticals, hospitality, industrials, IT, telecommunications and media, not for profit organisations, professional services, property, retail and transport.

5. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.



# 1 Investment overview

Topic	Summary	For more information
What is ELMO's business strategy and growth opportunities?	<p><b>1. Greater usage from existing customers</b></p> <p>ELMO aims to increase usage of its solutions amongst the Company's existing customer base and undertake cross-selling and upselling of additional modules to customers who are not yet subscribed to the full suite of ELMO's modules. Currently, ELMO offers customers seven talent management modules of which, on average, customers are subscribed to approximately 2.3 modules as at 31 December 2016 which has increased from an average of 1.49 modules as at 30 June 2014.</p> <p><b>2. Increasing market penetration in Australia and New Zealand</b></p> <p>According to Frost &amp; Sullivan, ELMO currently has approximately 4%<sup>6,7</sup> market share of the total addressable market in Australia and New Zealand. ELMO plans to accelerate its market penetration in ANZ by increasing investment into sales and marketing to drive lead generation and new customer wins. Additionally, ELMO aims to further develop and establish partnerships with industry bodies to promote the Company's brand and reputation which ELMO anticipates will encourage customer referrals.</p> <p><b>3. Expand product offering</b></p> <p>ELMO adopts a continuous improvement approach to its SaaS offering by continuously investing in research and development to enhance the functionality of its existing product offering and to expand its existing product offering with additional modules.</p> <p>The product development process is driven by collating feedback and product enhancement suggestions from a wide range of sources including ELMO's customers and staff.</p> <p>ELMO has recently launched a module for HR administration functions (<b>HR Core</b>) to expand its market opportunity and address both segments of the HCM industry. Additional modules in ELMO's product development pipeline include:</p> <ul style="list-style-type: none"> <li>– Rewards and Recognition;</li> <li>– Time and Attendance;</li> <li>– Remuneration; and</li> <li>– Workforce Planning.</li> </ul> <p>ELMO aims to launch four new modules in the next two to three years.</p> <p><b>4. Acquisitions</b></p> <p>The HCM industry is a highly fragmented market, with many small vendors of HCM solutions. ELMO believes that there is an opportunity to gain additional market share through targeted acquisitions of smaller HR technology companies across Australia and New Zealand who provide single point solutions within the HCM industry. Similar to ELMO's recent acquisition of Techni Works, incorporating complementary HR technology businesses into ELMO's business provides opportunity to leverage operational efficiencies through ELMO's existing infrastructure.</p> <p><b>5. Geographic expansion</b></p> <p>Although there is significant opportunity to grow within the core Australian market, ELMO believes there is also currently an attractive market opportunity for HCM solutions in New Zealand. ELMO also aims to eventually build its presence outside of the Australian and New Zealand markets to leverage the Company's technology capability using a capital light expansion model. ELMO sees a strong case to eventually expand to markets such as the U.S.A. and the U.K. where ELMO sees a large addressable market opportunity for mid-market organisations.</p>	<p><a href="#">Section 2.5 and Section 3.8</a></p>

6. As at 31 December 2016.

7. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

### 1.3 Key features of ELMO's industry

Topic	Summary	For more information
<b>What market or industry does ELMO operate in?</b>	<p>ELMO operates in the HCM software market. HCM software solutions are used to support and automate HR related processes at various stages of an employee's lifecycle, including recruitment, onboarding, performance management, learning and development, succession planning and employee administration.<sup>8</sup> HCM software solutions are typically divided into two categories:</p> <ol style="list-style-type: none"> <li>1. HR administration (also commonly referred to as "core HR"), and</li> <li>2. talent management.<sup>8</sup></li> </ol> <p>ELMO's business is primarily focused on providing talent management software solutions, however the Company also offers HR administration solutions through its HR Core module.</p>	<a href="#">Section 2.1 and Section 2.2</a>
<b>What is the cloud?</b>	The cloud is a form of internet-based computing that provides access to data and programs via the internet, which are remotely hosted and stored on a network of servers. This eliminates the need to run applications or programs from software downloaded and installed on a physical computer or an on-premise server.	<a href="#">Section 2.1.1</a>
<b>What is Software-as-a-Service (SaaS)?</b>	SaaS is the abbreviation for Software-as-a-Service and is defined as a software licensing and distribution model whereby software is centrally hosted and delivered to licensed users on a subscription basis over the internet. Users access the software by logging onto the platform through a web browser on an internet connected device and interact with the information and processes hosted by the SaaS provider on a central platform, often called the "cloud".	<a href="#">Section 2.1.2</a>
<b>What are the growth drivers of the HCM market?</b>	<p>According to Frost &amp; Sullivan, the growing adoption of SaaS-based HCM solutions is being driven by:</p> <ul style="list-style-type: none"> <li>– the increased focus on talent management as a source of competitive advantage and a key driver of corporate performance for organisations;</li> <li>– the growing adoption of talent management applications by mid-market organisations which has been encouraged by its strategic importance and increasing availability and cost effectiveness;</li> <li>– the evolution of the HR function from an administrative to a strategic role and the positive impacts that talent management software solutions have on workforce productivity and management;</li> <li>– the greater cost-effectiveness of SaaS-based solutions compared to on-premise system counterparts, with usage-based fees replacing costly software licenses and maintenance costs; and</li> <li>– widespread internet access and the changing workforce dynamics of a more mobile workforce with remote access has encouraged the adoption of cloud-based HCM solutions across many organisations.<sup>8</sup></li> </ul> <p>SaaS based HCM solutions are easily scalable and more adaptable to an organisation's growth strategy compared to on-premise HCM systems that may require additional investments in new licenses and new software and hardware by the customer.<sup>8</sup></p>	<a href="#">Section 2.4</a>
<b>Who does ELMO compete with?</b>	<p>The HCM software market is highly fragmented, and includes a number of large global vendors of enterprise software (such as SAP, Oracle and IBM), as well as many specialist vendors offering various HR administration and/or talent management solutions.<sup>8</sup></p> <p>HR administration solutions, of which payroll is a key application, have generally been developed by companies with a heritage in accounting software (such as MYOB, Sage and TechnologyOne), for whom the addition of other core HR functionality is a logical complement to their existing product offering.<sup>8</sup> Conversely, talent management solutions have generally been developed by specialist vendors, often starting with a single point solution application before broadening their product suite to comprise a broader set of talent management solutions.<sup>8</sup></p> <p>In summary, ELMO competes against the following categories of HCM software solution providers:</p> <ul style="list-style-type: none"> <li>– on-premise HCM solution providers which is software that is installed and operated from a customer's in-house server and computing infrastructure;</li> <li>– HCM point solution providers who provide software solutions that only address a single talent management function; and</li> <li>– unified talent management solution vendors who provide a suite of software solutions that address multiple verticals of talent management functions.</li> </ul>	<a href="#">Section 2.2 and Section 2.6</a>

8. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

# 1 Investment overview

## 1.4 Business highlights and key strengths

Topic	Summary	For more information
<b>A leading integrated talent management platform</b>	<p>ELMO provides a full suite of talent management software solutions that enable customers to efficiently manage the lifecycle of an employee from hire to retire which includes recruitment, onboarding, performance management, learning and development and succession planning.</p> <p>ELMO's proprietary platform is designed to assist its customers to better manage the complexities of the HR function by offering user-friendly, productivity enhancing, easy to integrate and cost-effective talent management software solutions.</p> <p>ELMO delivers its talent management software solutions through a multi-tenant infrastructure network with a single source code, which enables new product development and functionality enhancements to be easily installed and managed remotely.</p>	<a href="#">Section 3.1</a> , <a href="#">Section 3.2</a> , <a href="#">Section 3.3 and Section 3.4</a>
<b>Broad and diverse customer base</b>	<p>ELMO's talent management software solutions have been built for wide spread adoption and to address the HCM requirements of multiple industries. ELMO's diverse customer base includes government departments and agencies as well as large and mid-market corporations operating across 13<sup>9</sup> different industries.</p> <p>ELMO's customer base has grown at an approximate 53% CAGR from 164 organisations at 30 June 2014 to 472 organisations at 31 December 2016.</p> <p>ELMO's largest customer represents less than 4% of statutory SaaS revenue in FY16 and the top 10 customers account for less than 19% of statutory SaaS revenue in FY16 which has progressively decreased from approximately 31% in FY14 as the Company has won additional customers, broadening its revenue base.</p>	<a href="#">Section 3.7</a>
<b>Attractive financial profile</b>	<p>ELMO's attractive financial and cash flow profile is supported by a high proportion of recurring revenue, strong customer retention rates<sup>10</sup>, multi-year customer contracts and favourable payment terms as a result of the Company's SaaS-based revenue model, as detailed below:</p> <ul style="list-style-type: none"> <li>– enhanced revenue visibility through multi-year customer contracts;</li> <li>– recurring revenue representing approximately 93% of pro forma revenue for FY16;</li> <li>– strong growth in SaaS revenue which has increased at a CAGR of 43%<sup>11</sup> between FY14 and FY16;</li> <li>– pro forma SaaS revenue, excluding Techni Works, is forecast to grow at approximately 36% and 40% in FY17 and FY18, respectively;</li> <li>– positive free cash flows<sup>12</sup> with high EBITDA to operating cash flow conversion<sup>13</sup> rates, representing 253%, 219% and 195%, of pro forma EBITDA for FY14, FY15 and FY16, respectively;</li> <li>– strong customer retention rates<sup>10</sup> of approximately 93% and high revenue dollar retention rates<sup>14</sup> of over 120% for FY16; and</li> <li>– favourable payment terms whereby customers typically enter into three year contracts and pay annual license fees in advance.</li> </ul>	<a href="#">Section 3.5.3</a> , <a href="#">Section 4.4</a> , <a href="#">Section 4.6 and Section 4.7</a>

9. Includes construction and mining, education, finance, government, healthcare and pharmaceuticals, hospitality, industrials, IT, telecommunications and media, not for profit organisations, professional services, property, retail and transport.

10. Customer retention is calculated by dividing the number of customers in the reference period who were customers at the end of the prior period by the number of customers at the end of the prior period.

11. Excludes revenue from RTO operations, Techni Works and Other Income.

12. Free cash flows is defined as EBITDA after the removal of non-cash items in EBITDA such as bad debts and changes in working capital less capitalised software development and commission costs and other capital expenditure.

13. Operating cash flow conversion is defined as operating cash flow divided by EBITDA.

14. Revenue dollar retention is calculated by dividing the referenced financial year revenue by the prior financial year revenue for customers who were customers at the end of the prior financial year.



Topic	Summary	For more information
<b>Large and growing addressable market</b>	<p>ELMO operates in the HCM software market with a primary focus of providing talent management software solutions. According to Frost &amp; Sullivan, the global market for HCM solutions was US\$12.2 billion in 2015 which is expected to grow at a CAGR of 8.1% to reach approximately US\$15.4 billion in 2018.<sup>15</sup></p> <p>In Australia and New Zealand, Frost &amp; Sullivan estimated that revenue from HCM solutions reached a total of approximately US\$556 million in 2015 which is expected to grow at a CAGR of 10.1% to US\$901 million in 2020.<sup>15</sup></p> <p>As at 31 December 2016, ELMO had a customer base of 472<sup>16</sup> organisations in Australia and New Zealand, representing a market penetration rate of approximately 4% of the total addressable market in Australia and New Zealand of approximately 12,029 organisations which employ over 100 employees.<sup>15,17,18,19</sup></p>	<a href="#">Section 2.3 and Section 2.5</a>
<b>Multiple levers to drive growth</b>	<p>ELMO has a track record of strong and consistent growth. The Company's growth strategy is based on five key levers:</p> <ul style="list-style-type: none"> <li>– greater usage from existing customers, including providing additional modules to customers as well as supporting additional users;</li> <li>– increasing market penetration in Australia and New Zealand;</li> <li>– expansion of the product suite through new modules;</li> <li>– growth through acquisitions; and</li> <li>– growth through geographic expansion.</li> </ul>	<a href="#">Section 3.8</a>
<b>Stable and experienced management team</b>	<p>ELMO has a stable and experienced management team including:</p> <ul style="list-style-type: none"> <li>– being led by Danny Lessem as CEO, who founded the Company in 2002 and has been responsible for leading the long term strategy and delivering on ELMO's growth objectives. Danny has extensive experience with over 20 years of software experience;</li> <li>– a management team with experience across technology and software, legal, finance, commercial and strategy roles as well as a strong track record of growth and innovation with average tenure with ELMO of over six years; and</li> <li>– a key management team that is focused on delivering ELMO's long term objectives and is aligned with new Shareholders with equity ownership and no sell-down in the Offer.</li> </ul>	<a href="#">Section 6.2 and Section 7.1</a>
<b>Key competitive product strengths</b>	<p>ELMO believes its platform and product has several competitive strengths compared to on-premise systems and existing providers of HCM point and unified solutions, which include:</p> <ul style="list-style-type: none"> <li>– <b>hire to retire HCM solutions provider:</b> ELMO provides a full suite of talent management software solutions that aim to address the various stages of an employee's lifecycle from hire to retire with a more flexible and comprehensive HCM solution compared to alternative offerings;</li> <li>– <b>extensive course library:</b> for over 15 years, ELMO has invested into the development of its industry leading eLearning course library which currently has over 400 courses and covers a broad range of topics;</li> <li>– <b>SaaS cloud-based platform from day one:</b> since inception, ELMO's solutions have been built on a SaaS, cloud-based platform, which offers a more flexible and effective HCM solution compared to alternative on-premise software solutions;</li> <li>– <b>optimised for mid-market organisations:</b> ELMO's solutions target primarily mid-market organisations, which contrasts to unified talent management solutions currently provided by many HCM SaaS providers who typically target large enterprise and government organisations. These solutions often involve long implementation cycles, higher implementation costs and ongoing fees and extensive support;</li> <li>– <b>approved government supplier:</b> ELMO has become an approved panel supplier of talent management software solutions to various Commonwealth, State and Local government departments in Australia;</li> <li>– <b>user-friendly interface and device agnostic platform:</b> ELMO's talent management software solutions are designed to be simple and easy to use and are compatible across a wide range of internet connected devices; and</li> <li>– <b>integrable with external software programs and applications:</b> ELMO's platform has been constructed for practicality to minimise integration complexities with third party systems that customers may currently be using, such as payroll, on-premise systems or internal databases.</li> </ul>	<a href="#">Section 3.4</a>

# 1 Investment overview

## 1.5 Key risks

Topic	Summary	For more information
<b>Failure to retain existing customers and attract new customers</b>	<p>The success of ELMO's business relies on its ability to attract new customers and to retain and increase revenue from existing customers.</p> <p>ELMO's customers have no obligation to renew their service offering when their contract term ends and ELMO cannot guarantee that all or any of its customers will renew their current service offering after the completion of their contract term. ELMO also cannot guarantee that it will successfully increase revenue from its existing customers through the ability to cross-sell other modules to the same customers.</p> <p>If customers do not continue to use ELMO's platform and do not increase their usage over time, and if new customers do not choose to use ELMO's platform, the growth in ELMO's revenue may slow, or decline, which will have an adverse impact on ELMO's operating and financial performance.</p>	<a href="#">Section 5.1.1</a>
<b>Ability to attract and retain key personnel</b>	<p>A perceived critical component of the success of the Company is the ongoing retention of key personnel, specifically, founder and CEO, Danny Lessem, and members of the senior management and product research and development teams.</p> <p>There is a risk ELMO may not be able to attract and retain key personnel or be able to find effective replacements for those key personnel in a timely manner. The loss of such personnel, or any delay in their replacement, could have a significant negative impact on management's ability to operate the business and achieve financial performance targets and strategic growth objectives.</p>	<a href="#">Section 5.1.3</a>
<b>Reliance on ELMO's talent management software solutions and failure to adequately maintain and develop it</b>	<p>ELMO's business model depends on ELMO's ability to continue to ensure that ELMO's customers are satisfied with the functionality of ELMO's talent management software solutions. The market for talent management software solutions is subject to evolving industry standards, changing regulations as well as ever changing customer needs, requirements and preferences. ELMO's success will depend on its ability to adapt and respond effectively to these changes on a timely basis. There is a risk that ELMO may fail to maintain its software platform adequately or that future updates may introduce errors and performance issues causing customer satisfaction to fall. Any of these factors may result in reduced sales and usage of ELMO's solutions, loss of customers, damage to ELMO's reputation and an inability to attract new customers.</p>	<a href="#">Section 5.1.5</a>
<b>Reliance on up-take of SaaS-based talent management software solutions</b>	<p>ELMO's future revenue and growth depends on the increasing adoption of SaaS-based talent management software solutions. It may be difficult for ELMO to persuade potential customers to change their existing legacy on-premise, manual paper-based or point solution and adopt SaaS-based talent management solutions like ELMO's. If ELMO's solutions are not accepted and used by more mid-market organisations or if the market for talent management solutions fails to grow as expected, ELMO's platform could be adversely affected and revenue growth may slow, which could negatively impact ELMO's operating and financial performance.</p>	<a href="#">Section 5.1.6</a>
<b>Failure to effectively manage growth</b>	<p>ELMO has experienced a period of considerable growth in both revenue, employee numbers and customer base. Based on ELMO's projections, ELMO expects further growth in the future which could place significant strain on the current management, operational and finance resources as well as the infrastructure supporting ELMO's platform. Failure to appropriately manage growth could result in failure to retain existing customers and a failure to attract new customers which could adversely affect ELMO's operating and financial performance.</p>	<a href="#">Section 5.1.7</a>
<b>Failure to realise benefits from product research and development</b>	<p>Developing software and technology is expensive and often involves an extended period of time to achieve a return on investment. ELMO believes that it must continue to dedicate resources to ELMO's innovation efforts to develop ELMO's software and technology product offering and maintain the Company's competitive position.</p> <p>ELMO may not however, receive benefits from these investments for several years or may not receive benefits from these investments at all. There is a risk that ELMO may fail to realise benefits from its innovation and product development related costs.</p>	<a href="#">Section 5.1.8</a>
<b>Disruption or failure of technology and software systems</b>	<p>ELMO and its customers are dependent on the performance, reliability and availability of ELMO's platform, data centres and communications systems (including servers, the internet, hosting services and the cloud environment in which ELMO provides its solutions).</p> <p>Any disruption or failure of ELMO's technology and software systems could potentially lead to a loss of customers, legal claims by customers, and an inability to attract new customers, any of which could adversely impact ELMO's operating and financial performance.</p>	<a href="#">Section 5.1.9</a>

Topic	Summary	For more information
<b>Loss or theft of data and failure of data security systems</b>	ELMO's products involve the storage of customers' confidential and proprietary information including information regarding their employees. ELMO's business could be materially impacted by security breaches of customer data either by unauthorised access, theft, destruction, loss of information or misappropriation or release of confidential customer data. There is a risk that any measures taken may not be sufficient to prevent or detect unauthorised access to, or disclosure of, such confidential or proprietary information, and any of these events may cause significant disruption to ELMO's business and operations. This may also expose ELMO to reputational damage, regulatory scrutiny and fines, any of which could materially impact ELMO's operating and financial performance.	<a href="#">Section 5.1.11</a>
<b>Success of sales and marketing strategy</b>	ELMO's future success is partly dependent on the realisation of benefits from investment spent on sales and marketing campaigns and initiatives. Failure to realise intended benefits from sales and marketing investment could negatively impact ELMO's ability to attract new customers and adversely impact ELMO's operating and financial performance.	<a href="#">Section 5.1.14</a>
<b>Revenue recognised throughout term of customer contracts</b>	ELMO invoices customers annually in advance and recognises revenue monthly on a pro-rated basis throughout the term of the contract. As a result, most of the revenue realised in any given period relates to agreements entered into during previous periods. Consequently, a shortfall in demand for ELMO's solutions or losses in the existing customer base may not be reflected in the revenue results of that period but are likely to negatively impact revenue in subsequent periods. Accordingly, the effect of a shortfall in revenue from ELMO's platform may not be fully reflected in the financial performance until future periods.	<a href="#">Section 5.1.19</a>
<b>Other key risks</b>	The above risks are a summary of some of the key risks, but not an exhaustive list of all of the risks associated with the Company or an investment in the Shares. Full details of the risks summarised in this Section and other key risks are included in Section 5, and investors are recommended to review all of those risks carefully before making an investment decision.	<a href="#">Section 5</a>



# 1 Investment overview

## 1.6 Key financials and dividend policy

Topic	Summary						For more information	
How does ELMO expect to fund its operations?	ELMO has funded its operations through cash flow generated by the business and through equity capital. ELMO expects to principally fund its future operations through cash flow generated by the business and equity capital. Along with cash held at the Completion of the Offer, the Directors believe ELMO will have sufficient cash flow from operations to meet its business needs during the Forecast period and will have sufficient working capital to carry out its stated objectives.						Section 4.10	
What is ELMO's pro forma historical and forecast financial performance?							Section 4.3 and Section 4.4	
	A\$(‘000)		Pro forma Historical			Pro forma Forecast		Pro forma and Statutory Forecast
	June year end	Notes	FY14	FY15	FY16	FY17		FY18
	SaaS revenue	3	7,111	8,968	12,588	15,706		21,548
	Other income	4	207	965	901	652		853
	Total revenue		7,317	9,933	13,488	16,358		22,402
	Cost of sales	5	(624)	(869)	(1,242)	(1,593)		(1,883)
	Gross profit		6,693	9,064	12,247	14,764		20,518
	Sales and marketing		(1,659)	(2,599)	(4,435)	(6,462)		(8,620)
	Research and development	6	(434)	(451)	(437)	(435)		(565)
	General and administration		(3,663)	(4,955)	(5,808)	(7,007)		(8,649)
	Total operating expenses		(5,756)	(8,006)	(10,680)	(13,904)		(17,835)
	EBITDA	7	938	1,058	1,567	860		2,684
	Depreciation		(84)	(91)	(92)	(236)		(155)
	Amortisation		(791)	(1,100)	(1,576)	(2,124)		(2,631)
	EBIT	7	62	(133)	(101)	(1,499)		(102)
	Net finance income	8	342	354	373	364		421
	Profit before taxation		404	221	272	(1,135)		319
Income tax (expense)/ benefit	9	(121)	(66)	(82)	340	(96)		
Pro forma NPAT		283	155	191	(794)	223		
Refer to Section 4.3, Figure 40, for the notes relating to the above.								

Topic	Summary						For more information
<b>What is ELMO's pro forma historical and forecast financial performance?</b> <b>Continued</b>	<b>A\$('000)</b>		<b>Pro forma Historical</b>			<b>Pro forma Forecast</b>	
	<b>June year end</b>	<b>Notes</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
	<b>Financial metrics</b>	1					
	Pro forma cash receipts ('\$000)	2	9,476	11,962	15,704	19,035	25,725
	Pro forma cash receipts as a % of pro forma revenue	2	129.5%	120.4%	116.4%	116.4%	114.8%
	Pro forma revenue growth (%)		n.a.	35.7%	35.8%	21.3%	36.9%
	SaaS revenue growth (ex. Techni Works) (%)		n.a.	36.8%	50.1%	30.8%	39.5%
	Recurring revenue (%)	3	97.2%	90.3%	93.3%	96.0%	96.2%
	Revenue run rate (%)	4	n.a.	n.a.	n.a.	96.8%	83.1%
	Pro forma gross margin (%)		91.5%	91.2%	90.8%	90.3%	91.6%
	Pro forma EBITDA margin (%)		12.8%	10.7%	11.6%	5.3%	12.0%
	Sales & marketing spend % of revenue		22.7%	26.2%	32.9%	39.5%	38.5%
	General & administration spend % of revenue		50.1%	49.9%	43.1%	42.8%	38.6%
	R&D spend % of revenue	5	18.0%	19.9%	15.6%	15.2%	17.2%
	<b>Operational metrics</b>						
	Number of customers (ex. Techni Works)	6	164	254	358	455	569
	Revenue per SaaS customer (ex. Techni Works) ('\$000)		33.6	29.7	31.6	32.5	36.3
	Modules per customer (ex. Techni Works)	7	1.50	1.91	2.22	2.29	2.55
	Employees	8	58	67	80	106	129
	Refer to Section 4.4, Figure 42, for the notes relating to the above.						
	The information presented above contains non-IFRS financial measures, is intended as a summary only and should be read in conjunction with the more detailed discussion on the Financial Information disclosed in Section 4 as well as the risk factors set out in Section 5.						

# 1 Investment overview

Topic	Summary								For more information
What is ELMO's statutory historical and forecast financial performance?	A\$('000)	Statutory Historical					Statutory forecast		Section 4.3 and Section 4.6
	June year end	FY14	FY15	FY16	1H16	1H17	FY17	FY18	
	SaaS revenue	5,515	7,532	11,303	5,534	7,187	15,422	21,548	
	Other income	2,466	2,492	1,324	460	269	642	853	
	Total revenue	7,981	10,024	12,626	5,995	7,456	16,064	22,402	
	Cost of sales	(999)	(1,182)	(1,544)	(735)	(905)	(1,684)	(1,883)	
	Gross profit	6,982	8,842	11,082	5,260	6,551	14,379	20,518	
	Sales and marketing	(3,127)	(3,548)	(4,924)	(1,969)	(3,124)	(6,498)	(8,620)	
	Research and development	(434)	(451)	(437)	(135)	(63)	(435)	(565)	
	General and administration	(2,532)	(3,764)	(4,666)	(2,463)	(2,795)	(7,538)	(8,649)	
	Total operating expenses	(6,093)	(7,763)	(10,027)	(4,567)	(5,981)	(14,470)	(17,835)	
	EBITDA	889	1,079	1,055	692	570	(91)	2,684	
	Depreciation	(84)	(91)	(92)	(96)	(161)	(236)	(155)	
	Amortisation	(186)	(693)	(1,393)	(603)	(958)	(2,109)	(2,631)	
	EBIT	619	296	(430)	(7)	(550)	(2,436)	(102)	
	Net finance income	18	30	50	17	13	41	421	
	Profit before taxation	637	326	(380)	10	(537)	(2,395)	319	
	Income tax (expense)/ benefit	4	5	468	39	166	944	(96)	
	Statutory NPAT	641	331	88	49	(371)	(1,451)	223	
	Refer to Section 4.3, Figure 40, and Section 4.6. Figure 46, for the notes relating to the above. The information presented above contains non-IFRS financial measures, is intended as a summary only and should be read in conjunction with the more detailed discussion on the Financial Information disclosed in Section 4 as well as the risk factors set out in Section 5.								
What is ELMO's dividend policy?	The payment of a dividend by the Company is at the discretion of the Board and will be a function of a number of factors, including the general business environment, operating results and financial condition of the Company.  While it is the aim of the Company that, in the longer term, its financial performance and position will enable the payment of dividends, at the Prospectus Date, the Company does not intend, or expect, to declare or pay any dividends in the immediately foreseeable future, given that ELMO's focus will be on long term growth.								Section 4.15
What will ELMO's capital structure be on Completion?	On Completion, ELMO will have 54.1 million fully paid ordinary shares on issue.								Section 7.1.1 and Section 7.1.2

## 1.7 Directors and key management

Topic	Summary	For more information
<b>Who are the directors of ELMO?</b>	<ul style="list-style-type: none"> <li>James (Jim) McKerlie – Chairman and Independent Non-executive Director</li> <li>Danny Lessem – Chief Executive Officer and Executive Director</li> <li>David Hancock – Independent Non-executive Director</li> <li>Trevor Lonstein – Chief Financial Officer and Executive Director</li> </ul>	<a href="#">Section 6.1</a>
<b>Who are the key management of ELMO?</b>	<ul style="list-style-type: none"> <li>Danny Lessem – Chief Executive Officer and Executive Director</li> <li>Trevor Lonstein – Chief Financial Officer and Executive Director</li> <li>Gordon Starkey – Chief Operating Officer</li> <li>Samuel Sun – Chief Technology Officer</li> <li>Monica Watt – General Manager Human Resources</li> <li>Darryl Garber – Head of Corporate Development and Strategy</li> </ul>	<a href="#">Section 6.2</a>

## 1.8 Significant interests of key people and related party transactions

Topic	Summary	For more information																																			
Who are the key Existing Shareholders and what will be their interest in ELMO at the Completion of the Offer?	<table><thead><tr><th>Shareholder</th><th>Shareholding immediately prior to the Offer (Shares)</th><th>Shareholding immediately prior to the Offer (%)</th><th>Shareholding post-IPO (Shares)</th><th>Shareholding post-IPO (%)</th></tr></thead><tbody><tr><td>JLAB Investments (No. 2) Pty Ltd</td><td>16.0 million</td><td>38.4%</td><td>16.0 million</td><td>29.5%</td></tr><tr><td>Garber Family Trust</td><td>12.0 million</td><td>28.8%</td><td>12.0 million</td><td>22.1%</td></tr><tr><td>Lessem Trading Pty Ltd (Danny Lessem)</td><td>12.0 million</td><td>28.8%</td><td>12.0 million</td><td>22.1%</td></tr><tr><td>Key management</td><td>1.7 million</td><td>4.0%</td><td>1.7 million</td><td>3.1%</td></tr><tr><td>Investors in the Offer</td><td>Nil</td><td>Nil</td><td>12.5 million</td><td>23.1%</td></tr><tr><td><b>Total</b></td><td><b>41.7 million</b></td><td><b>100.0%</b></td><td><b>54.2 million</b></td><td><b>100.0%</b></td></tr></tbody></table> <p>Notes: Share numbers have been rounded up. Excludes shares to be issued by the Company under the Employee Gift Offer. Excludes any Shares that may be acquired by Directors (or their controlled entities), key management or employees under the Offer (including the Employee Gift Offer).</p>	Shareholder	Shareholding immediately prior to the Offer (Shares)	Shareholding immediately prior to the Offer (%)	Shareholding post-IPO (Shares)	Shareholding post-IPO (%)	JLAB Investments (No. 2) Pty Ltd	16.0 million	38.4%	16.0 million	29.5%	Garber Family Trust	12.0 million	28.8%	12.0 million	22.1%	Lessem Trading Pty Ltd (Danny Lessem)	12.0 million	28.8%	12.0 million	22.1%	Key management	1.7 million	4.0%	1.7 million	3.1%	Investors in the Offer	Nil	Nil	12.5 million	23.1%	<b>Total</b>	<b>41.7 million</b>	<b>100.0%</b>	<b>54.2 million</b>	<b>100.0%</b>	<a href="#">Section 7.1.6</a>
Shareholder	Shareholding immediately prior to the Offer (Shares)	Shareholding immediately prior to the Offer (%)	Shareholding post-IPO (Shares)	Shareholding post-IPO (%)																																	
JLAB Investments (No. 2) Pty Ltd	16.0 million	38.4%	16.0 million	29.5%																																	
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Investors in the Offer	Nil	Nil	12.5 million	23.1%																																	
<b>Total</b>	<b>41.7 million</b>	<b>100.0%</b>	<b>54.2 million</b>	<b>100.0%</b>																																	
What significant benefits and interests are payable to Directors and other persons connected with ELMO or the Offer and what interest do they hold in the Company?	<p>For Shares expected to be held by Directors (or their associated entities) on Completion, refer to Section 6.3.2.5.</p> <p>Directors are entitled to remuneration and fees on commercial terms as disclosed in Section 6.3.2.</p> <p>Advisers and other service providers are entitled to fees for services as disclosed in Section 6.3.1.</p>	<a href="#">Section 6.3.1 and Section 6.3.2</a>																																			
Will any Shares be subject to restrictions on disposal following Completion?	<p>Yes.</p> <p>Certain Shareholders (the <b>Escrowed Shareholders</b>) are expected to be escrowed by ASX for 24 months from the date of Admission.</p> <p>It is estimated that 41.6 million Shares will be subject to these escrow arrangements.</p> <p>The Company will announce to ASX full details (quantity and duration) of the Shares held in escrow prior to the Shares commencing trading on ASX.</p>	<a href="#">Section 7.7</a>																																			



# 1 Investment overview

## 1.9 Overview of the Offer

Topic	Summary	For more information
<b>What is the offer?</b>	This Prospectus relates to an initial public offering of New Shares issued by ELMO at an Offer Price of \$2.00 per Share ( <b>Offer Price</b> ). A total of 12.5 million New Shares will be available under the Offer. The Offer is expected to raise approximately \$25.0 million. The New Shares to be issued under the Offer will represent 23.1% of the Shares on issue on Completion of the Offer.	<a href="#">Section 7.1.1</a>
<b>Who is the issuer of the Prospectus?</b>	ELMO Software Limited ACN 102 455 087.	<a href="#">Section 7.1</a>
<b>Why is the Offer being conducted?</b>	The Offer is being conducted to: <ul style="list-style-type: none"> <li>– provide funding and financial flexibility to support ELMO's growth strategies;</li> <li>– fund increased investment in new product development;</li> <li>– fund increased investment in sales and marketing;</li> <li>– provide funding flexibility to opportunistically acquire other existing providers of HCM solutions that could complement ELMO's platform and solutions;</li> <li>– attract and retain high-quality staff;</li> <li>– increase ELMO's brand profile through being a listed entity; and</li> <li>– cover IPO and capital raising costs.</li> </ul>	<a href="#">Section 7.1.3</a>
<b>What is the proposed use of proceeds raised under the Offer?</b>	The proceeds received by ELMO from the issue of New Shares will be used as follows: <ul style="list-style-type: none"> <li>– \$21.6 million to provide working capital to fund investment in sales and marketing, investment in product development, for general corporate purposes, including potentially to fund further acquisitions; and</li> <li>– \$3.4 million to pay the costs associated with the Offer.</li> </ul>	<a href="#">Section 7.1.3 and Section 7.1.4</a>
<b>Will the Shares be quoted on ASX?</b>	The Company will apply for admission to the Official List of ASX and quotation of the Shares on ASX under the code 'ELO' within seven days of the Prospectus Date. Completion of the Offer is conditional on ASX approving this application for admission and quotation. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	<a href="#">Section 7.10.1</a>
<b>How is the Offer structured?</b>	The Offer comprises the following components: <ul style="list-style-type: none"> <li>– <b>Broker Firm Offer:</b> an offer to Australian resident retail clients of Brokers who have received a firm allocation from their Broker (see Section 7.3);</li> <li>– <b>Institutional Offer:</b> an invitation to bid for Shares made to Institutional Investors in Australia and in certain other eligible jurisdictions (see Section 7.4);</li> <li>– <b>Priority Offer:</b> open to selected investors who have received an invitation from the Company (see Section 7.5);</li> <li>– <b>Employee Gift Offer:</b> open to Eligible Gift Employees who have received an Offer from the Company to acquire, at no cost, the nearest whole number of Shares (rounded down based on the Offer Price) up to the value of \$500 each (see Section 7.6).</li> </ul>	<a href="#">Section 7.1.2, Section 7.3, Section 7.4, Section 7.5 and Section 7.6</a>
<b>What is the Offer price?</b>	The price payable under the Offer is \$2.00 per Share.	<a href="#">Section 7.1.1.</a>
<b>Is the Offer underwritten?</b>	Yes. The Offer is fully underwritten by Wilsons.	<a href="#">Section 9.4.3.</a>
<b>What is the allocation policy?</b>	The allocation of Shares under the Institutional Offer was determined by the Company and the Lead Manager.  The allocation of Shares between the Broker Firm Offer and the Priority Offer will be determined by agreement between the Company and the Lead Manager. With respect to the Broker Firm Offer, it is a matter for the Brokers as to how they allocate Shares among their retail clients. Priority Offer Applicants will be guaranteed a minimum allocation of \$2,000 of Shares at the Offer Price.  Employee Gift Offer applicants will receive a guaranteed allocation of \$500 worth of Shares (rounded down to the nearest whole Share based on the Offer Price).	<a href="#">Section 7.3.3, Section 7.4.2, Section 7.5.4 and Section 7.6.3.</a>

Topic	Summary	For more information
<b>Is there any brokerage, commission or stamp duty payable by Applicants?</b>	No brokerage, commission or stamp duty is payable by the Applicants on acquisition of Shares under the Offer.	<a href="#">Section 7.2 and Section 9.4.3.1</a>
<b>What are the tax implications of investing in the Shares?</b>	Refer to Section 9.8. It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax) stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.	<a href="#">Section 9.8</a>
<b>When will I receive confirmation that my Application has been successful and when can I sell my Shares?</b>	It is expected that the dispatch of holding statements will occur by Friday, 23 June 2017 and that Shares will commence trading on ASX on a normal settlement basis on or about Thursday, 29 June 2017. Refunds to Applicants will be made as soon as possible after Settlement of the Offer, which is expected to occur on or about Wednesday, 21 June 2017. No interest will be paid on any refunds.	<a href="#">Section 7.9 and Section 7.10</a>
<b>How can I apply?</b>	<ul style="list-style-type: none"> <li>– <b>Broker Firm Offer:</b> Retail investors who receive an allocation of Shares under the Broker Firm Offer should follow the instructions provided by their Broker.</li> <li>– <b>Priority Offer:</b> If you have received an allocation of Shares under the Priority Offer, by completing the online Application Form accompanying the electronic version of this Prospectus.</li> <li>– <b>Employee Gift Offer:</b> If you have received a personalised invitation to apply for Shares under the Employee Gift Offer, you should follow the instructions on your personalised invitation to apply.</li> </ul> <p>To the extent permissible by law, an Application by an Applicant under the Offer is irrevocable.</p>	<a href="#">Section 7.3.2, Section 7.5.2 and Section 7.6.2</a>
<b>What is the minimum and maximum Application size?</b>	<p>The minimum Application size for investors in the Broker Firm Offer and the Priority Offer is \$2,000 worth of Shares.</p> <p>There is no maximum value of Shares that may be applied for under the Broker Firm Offer or the Priority Offer.</p> <p>Under the Employee Gift Offer, Eligible Gift Employees will be offered the opportunity to apply for up to \$500 (rounded down based on the Offer Price) worth of Shares at no cost.</p>	<a href="#">Section 7.2</a>
<b>Can the Offer be withdrawn?</b>	<p>Yes. The Company reserves the right not to proceed with the Offer at any time before the issue of Shares to successful Applicants.</p> <p>If the Offer does not proceed, Application Monies will be refunded.</p> <p>No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.</p>	<a href="#">Section 7.2 and Section 7.9</a>
<b>Where can I find out more information about this Prospectus or the Offer?</b>	<p>All enquiries in relation to this Prospectus should be directed to the ELMO Offer Information Line on 1800 812 642 (toll free within Australia) or +61 1800 812 642 (outside of Australia) between 8.30am to 5.30pm (Sydney time) Monday to Friday (business days only) during the Offer Period.</p> <p>All enquiries in relation to the Broker Firm Offer should be directed to your Broker.</p> <p>If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.</p>	<a href="#">Section 7</a>



# 2 INDUSTRY OVERVIEW

## 2.1 Introduction and background

ELMO operates in the Human Capital Management (**HCM**) software market. ELMO's integrated Software-as-a-Service (**SaaS**), cloud-based talent management software solutions enable organisations (**customers**) to manage various Human Resource (**HR**) related processes, including recruitment, onboarding, performance management, learning and development, succession planning and employee administration.

ELMO's solutions are provided to customers via the cloud under a SaaS model. This means the Company's platform is centrally hosted and delivered to customers over the internet through a web browser interface for a subscription fee. ELMO's SaaS, cloud-based infrastructure provides customers with the flexibility of being able to access the platform at any time and at any location with internet connectivity on a range of electronic devices, including desktop computers, laptops, tablets and smartphones. ELMO's solutions have been designed to be industry agnostic and scalable with different sized organisations, however, the Company primarily targets mid-market organisations that employ 100 to 1,000 employees (**mid-market organisations**). ELMO's solutions are sold both to first-time users of HCM software, who are typically seeking to automate HR-related processes previously done manually, and to organisations replacing existing legacy on-premise HCM systems<sup>1</sup>, to better address the evolving HCM industry requirements.<sup>2</sup>

### 2.1.1 What is the cloud?

The cloud is a form of internet-based computing that provides access to data and programs via the internet, which are remotely hosted and stored on a network of servers. This eliminates the need to run applications or programs from software downloaded and installed on a physical computer or an on-premise server.

### 2.1.2 What is SaaS?

SaaS stands for Software-as-a-Service and is defined as a software licensing and distribution model whereby software is centrally hosted and delivered to licensed users on a subscription basis over the internet. Users access the software by logging onto the platform through a web browser on an internet connected device and interact with the information and processes hosted by the SaaS provider on a central platform, often called the cloud.

SaaS has become a common delivery model for software applications utilised by organisations across many industries. SaaS removes the need for organisations to install, maintain and upgrade software and hardware, thereby eliminating or significantly reducing the costs and complexities associated with on-premise systems. SaaS is typically licensed on a monthly (or annual) usage or subscription basis, which reduces the upfront cost for users and transfers the cost of the software to a recurring operating expense (subscription fee). This is unlike traditional software, which is conventionally sold as a perpetual license with an upfront license fee and an ongoing maintenance fee. Software hosted on a cloud-based infrastructure also allows for upgrades to be delivered automatically to all users from a centralised location with minimal impact to both the software vendor and user.

## 2.2 Overview of the HCM software industry

HCM software solutions are used to support and automate HR related processes at various stages of an employee's lifecycle.<sup>2</sup> HCM software solutions are typically divided into two categories:

1. HR administration (also commonly referred to as "core HR"), and
2. talent management.<sup>2</sup>

ELMO's business is primarily focused on providing talent management software solutions, however the Company also offers HR administration solutions through its HR Core module.

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1. On-premise is a software delivery model where software is installed and operated from a customer's in-house server and computing infrastructure. It utilises an organisation's internal computing resources and networks, and requires a licensed or purchased copy of software from the software vendor.

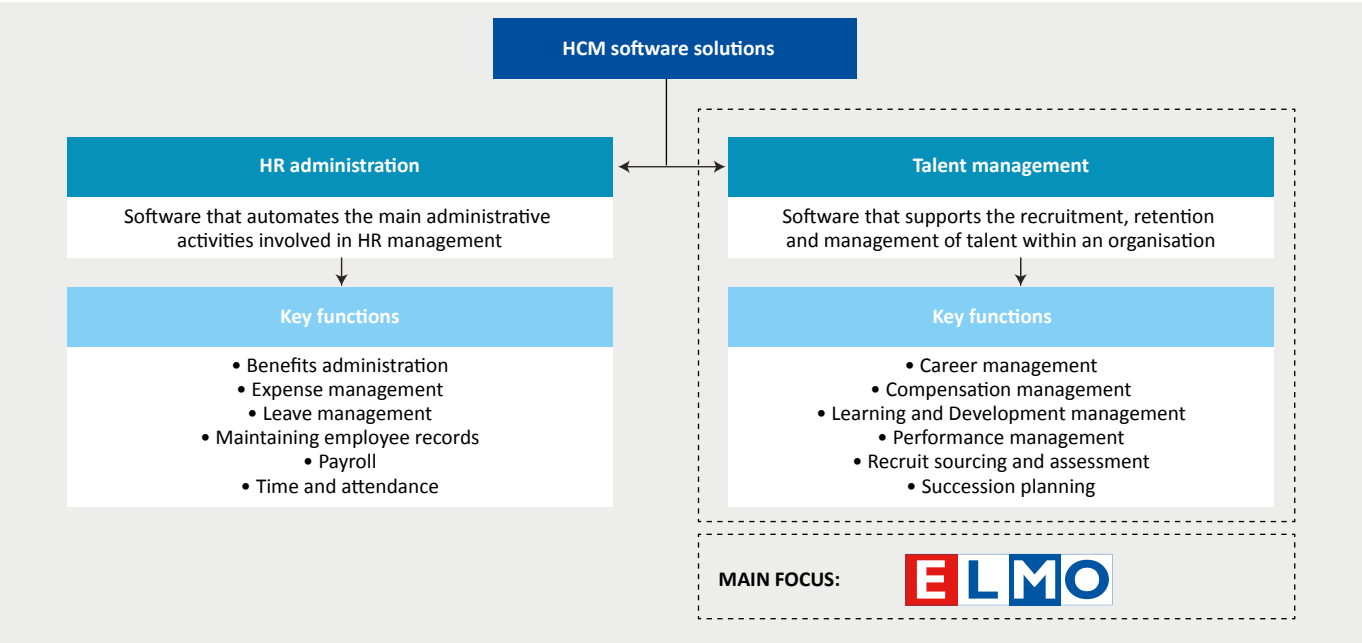
2. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.



# 2 Industry overview

A summary of the key functions of the two categories of HCM software solutions is provided below in Figure 1.<sup>3</sup>

FIGURE 1: CATEGORIES AND KEY FUNCTIONS OF HCM SOFTWARE SOLUTIONS<sup>3</sup>



Note: List of key functions for both HR administration and talent management is not exhaustive.

According to Frost & Sullivan, of the two categories of HCM software solutions, HR administration is the more mature category compared to talent management.<sup>3</sup> HR administration solutions are used by organisations to manage HR processes including payroll, benefits administration, maintenance of employee records, time and attendance, expense management and leave management.<sup>3</sup> Talent management solutions are a set of software applications that organisations use to recruit, onboard, manage, retain and develop their employees. According to Frost & Sullivan, talent management solutions is the fastest growing category of the HCM software solutions market across Australia and New Zealand (ANZ).<sup>3</sup>

Managers are increasingly recognising the strategic importance of evolving HCM requirements from an administrative function and how talent management solutions positively impact workforce productivity and efficiency.<sup>3</sup> HCM requirements of many organisations are typically serviced either by manual paper-based processes, legacy on-premise systems or with a combination of point solutions that attempt to replicate a comprehensive talent management software solutions product.<sup>4</sup> Limitations of these approaches can include large up-front capital requirements, lengthy and complex integration and implementation processes, limited scalability and costly ongoing maintenance requirements. SaaS, cloud-based talent management software solutions provide a more flexible and cost effective HCM solution compared to on-premise systems and point solutions, which tend to limit an organisation’s ability to rapidly scale and adapt to changing HCM industry requirements.<sup>3</sup> As a result, HCM software vendors offering solutions on an integrated platform with a suite of products, such as ELMO, will typically have a market advantage over on-premise systems and point solution providers. This is driven by the general preference of organisations to use a single integrated solution in addressing their various HCM requirements rather than resorting to multiple providers for different solution offerings, which may create unnecessary complexities and inefficiencies.<sup>3</sup>

HCM solutions have primarily been adopted by large enterprise organisations. However, over recent years, with the emergence of cost-effective and easy to implement SaaS, cloud-based platforms, HCM software solutions have seen an increasing rate of adoption amongst mid-market organisations.<sup>3</sup>

3. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

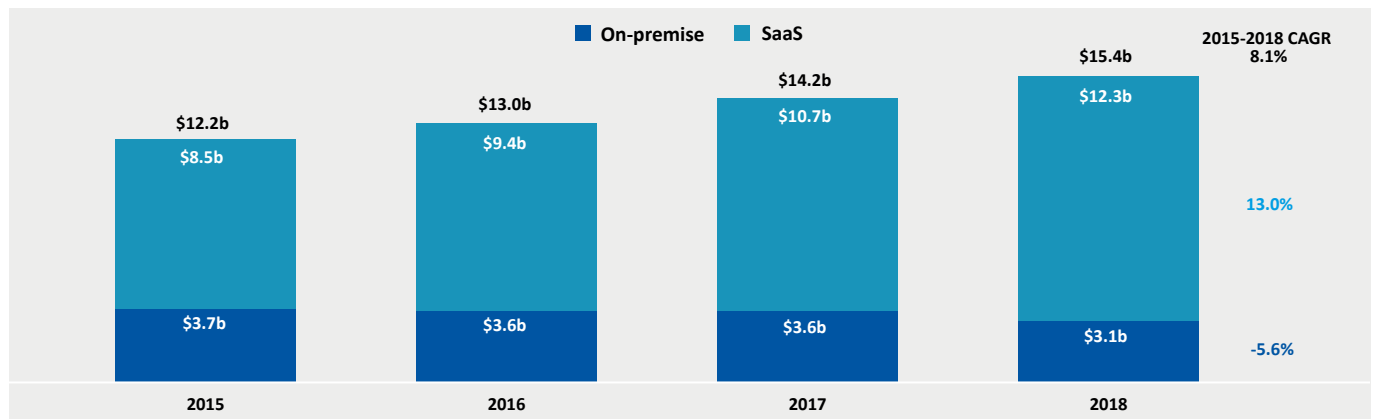
4. Point solutions is defined as HCM solutions that address only a single talent management function.

## 2.3 Size and growth of the HCM software market

### 2.3.1 Global HCM software market

According to Frost & Sullivan, the global HCM software market, defined as recurring revenues from licensing fees and maintenance support, was US\$12.2 billion in 2015, and is forecast to grow to US\$15.4 billion by 2018, representing a compound annual growth rate (CAGR) of 8.1% as shown in Figure 2 below.<sup>5</sup>

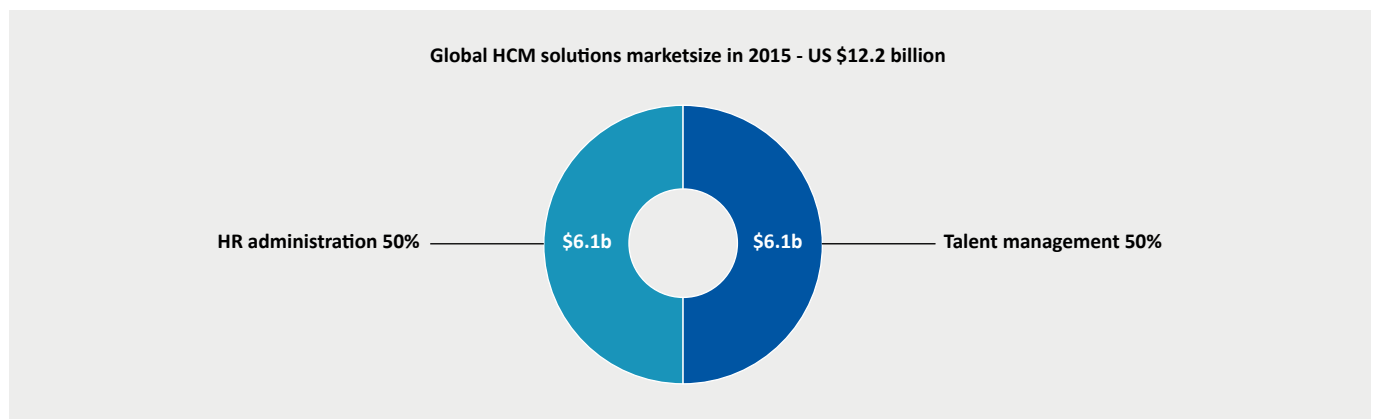
FIGURE 2: SIZE AND GROWTH OF THE GLOBAL HCM SOFTWARE MARKET, US\$BILLION<sup>6</sup>



The HCM software market includes products delivered through both on-premise and SaaS-based models.<sup>7</sup> Frost & Sullivan estimates that in 2015, approximately 70% of industry revenue was delivered through SaaS-based models, and this is expected to increase to approximately 80% by 2018, representing a CAGR of 13%.<sup>7</sup> ELMO believes the growth in SaaS-based HCM software solutions is driven by the benefits of cloud-based infrastructure which has encouraged many organisations to transition away from traditional on-premise HCM systems. As a result, traditional on-premise systems are expected to experience a CAGR of approximately -5.6% over the same period, as shown in Figure 2 above.<sup>5</sup>

According to Frost & Sullivan, the US\$12.2 billion global HCM software market is equally split between HR administration and talent management software solutions, with each category contributing approximately US\$6.1 billion, as shown in Figure 3 below.<sup>5,6</sup>

FIGURE 3: GLOBAL HCM SOFTWARE MARKET BY CATEGORY, US\$BILLION<sup>5,7</sup>



5. Shea & Company, 'Human Capital Management Software Market Map', February 2016.

6. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017, based on data from Shea & Company, 'Human Capital Management Software Market Map', February 2016. Data for 2016 and 2017 has been estimated by Frost & Sullivan.

7. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

## 2 Industry overview

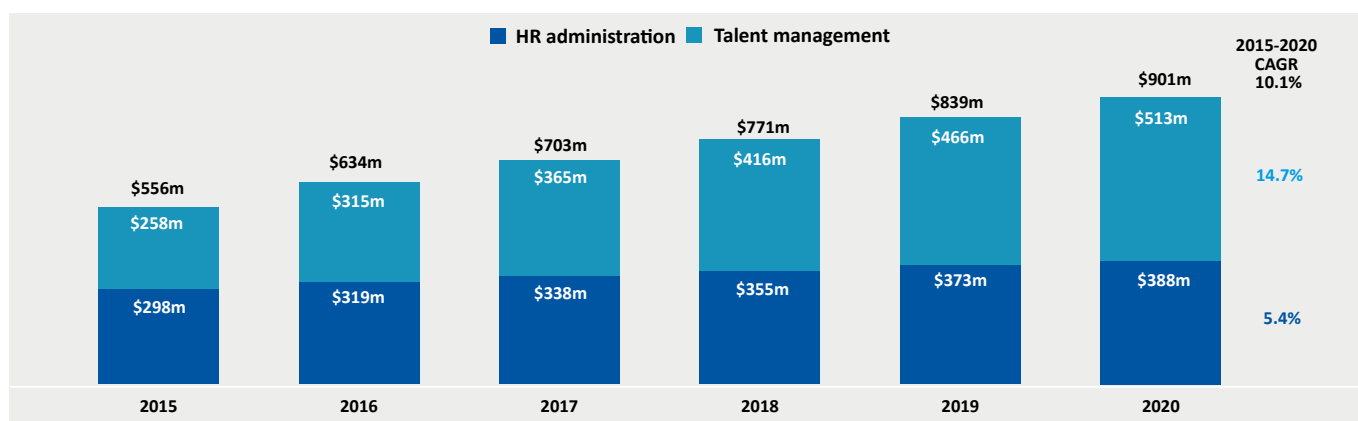
### 2.3.2 ANZ HCM software market

Australia and New Zealand is generally a less mature market for adopting cloud computing technology compared to other developed countries such as the U.S.A. and northern Europe.<sup>8</sup> Based on data from the Australian Bureau of Statistics (ABS), in 2013 to 2014 only 19.4% of all businesses in Australia subscribed to some form of cloud computing.<sup>9</sup> This contrasts to the higher adoption rate amongst larger businesses (over 200 employees) where cloud computing was adopted in over 36% of businesses.<sup>9</sup> Overall, cloud computing adoption amongst businesses in Australia is approximately on par with the European Union as a whole, with an average adoption rate of 19% in 2014.<sup>9,10</sup> However, this is well behind the adoption rates calculated in 2014 for countries such as Finland (51%), Sweden (39%) and Denmark (38%).<sup>10</sup> Australia also trails behind the U.S.A., where in 2013, an estimated 54% of businesses were using cloud computing.<sup>8</sup> Despite this, the growth of the Australian cloud computing market is expected to outpace other more mature countries with expected rising levels of adoption and a growing addressable market.<sup>8</sup>

Frost & Sullivan estimates revenue from HCM software in ANZ reached a total of approximately US\$556 million in 2015, which represents approximately 4.6% of the global HCM software market.<sup>8</sup> According to Frost & Sullivan, the Australian and New Zealand market is expected to grow at a CAGR of 10.1% to US\$901 million in 2020.<sup>8</sup>

As indicated by Figure 4 below, talent management contributed approximately 50% of the total HCM industry revenue during 2016 which is forecast to expand to approximately 57% in 2020.<sup>8</sup> This trend of talent management solutions growth is driven by the progressive transition of HCM from a transaction oriented administrative function to a more integral component in achieving, managing and supporting the strategic goals of an organisation. As a result, Frost & Sullivan estimates talent management solutions will grow at a CAGR of approximately 14.7% from 2015 to 2020, exceeding the expected CAGR of approximately 5.4% for HR administration solutions and the approximate 10.1% CAGR of the overall ANZ HCM market.<sup>8</sup>

FIGURE 4: SIZE AND POTENTIAL GROWTH OF HR ADMINISTRATION AND TALENT MANAGEMENT WITHIN THE ANZ HCM SOFTWARE MARKET, US\$MILLION<sup>8</sup>



### 2.4 Drivers of SaaS-based HCM solution adoption

According to Frost & Sullivan, the growing adoption of SaaS-based HCM solutions is being driven by the factors outlined below:

#### 2.4.1 The increased focus on talent management as a source of competitive advantage by organisations

Talent management is today recognised by organisations as a key strategic challenge and a major driver of corporate performance.<sup>8</sup> For organisations, this focus on talent management applies through all stages of the employee life cycle, from ensuring that the best possible applicants are identified and recruited, to providing a seamless onboarding experience, ongoing performance management and ensuring employees receive adequate levels of learning and development.<sup>8</sup>

#### 2.4.2 Growing adoption of talent management applications by mid-market organisations

The adoption of talent management solutions has evolved from mainly being implemented by larger organisations to being an area of focus for mid-market organisations.<sup>8</sup> The increasing rate of adoption by mid-market organisations has been encouraged by the recognised strategic importance of talent management solutions, which have become easier and more cost effective to implement, maintain and upgrade with the increased availability of SaaS-cloud based software.<sup>8</sup>

8. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

9. ABS, 8129.0 – Business Use of Information Technology, 2013-14.

10. Eurostat, Cloud Computing – Statistics on the Use by Enterprises, December 2016.

#### 2.4.3 The evolution of the HR function from an administrative to a strategic role

Given the importance of talent management, the role of HR within organisations is generally shifting from an administrative function (e.g. ensuring compliance with policies and procedures) to a strategic function, concerned with aspects such as workforce productivity and succession planning.<sup>11</sup> Leading HR functions are now evolving from a “service provider” role to becoming valued talent, design, and employee-experience consultants, and are often now more deeply embedded in the business through senior leadership roles.<sup>12</sup> A global survey of 7,000 HR professionals identified that most recognise their skills need to evolve, with this being particularly strong in markets such as Australia (78%).<sup>12</sup> This evolution in the role of HR is shifting the focus towards talent management solutions, which can support and deliver the new mandate of the HR function.<sup>11</sup>

#### 2.4.4 The greater cost-effectiveness of SaaS-based solutions

SaaS-based solutions are generally significantly more cost effective than their on-premise counterparts, with usage-based fees replacing software license and maintenance costs, based on the number of users, irrespective of utilisation.<sup>11</sup> SaaS-based pricing models typically allow for payment on an “as used” or utility model, providing more flexibility in price and overall cost effectiveness.<sup>11</sup> Additionally, SaaS-based solutions delivered over the cloud minimise the capital investment required by customers.<sup>11</sup> These solutions are typically accessed through a web browser, and do not require organisations to invest in software licenses, hardware and ongoing technical support and maintenance, which are typically required for on-premise solutions.<sup>11</sup> This is particularly attractive for small to mid-market organisations, which may lack the financial capacity to invest in costly on-premise HCM solutions.<sup>11</sup> With SaaS-based solutions, small and mid-market organisations are provided with access to cost effective software and applications which provide similar functionality and sophistication as those utilised by large enterprise organisations.<sup>11</sup>

#### 2.4.5 Changing workforce dynamics encouraging use of cloud solutions

Widespread internet access and the changing workforce dynamic of a more mobile workforce with remote work access has encouraged the adoption of cloud HCM solutions across many organisations.<sup>11</sup> The use of digital tools for employee engagement and management is therefore an important element of efficient talent management, with 72% of HR professionals believing that delivery of digital HR solutions is an important priority for their organisation.<sup>11,12</sup>

#### 2.4.6 Ability to scale, reconfigure and update

SaaS-based HCM solutions are easily scalable with an organisation’s growth strategy, which may include increasing employee headcount, geographic expansion or acquisitions.<sup>11</sup> This makes SaaS-based HCM solutions much more flexible to business scalability compared to on-premise HCM systems that may require additional investments in additional licenses and new software and hardware by the customer.<sup>11</sup> Regular updates to HCM systems are a key feature required to adapt to the changing HCM industry requirements, which may include compliance or regulatory changes.<sup>11</sup> Ongoing changes can be easily deployed by the vendor under a SaaS-based solution and be made immediately accessible to all users, unlike on-premise systems whereby software patches will need to be downloaded and installed, typically a time consuming task with disruptive service outages.<sup>11</sup>

### 2.5 Market opportunity for ELMO

ELMO focuses primarily on mid-market organisations as its target market which is defined as organisations employing between 100 and 1,000 employees. However, ELMO’s scalable software solutions are also used by many organisations employing over 1,000 employees, which together with mid-market organisations, represent ELMO’s total addressable market (organisations employing over 100 employees). Currently, the majority of ELMO’s customers are in Australia, with a smaller, but rapidly growing number in New Zealand as well as in Singapore. The Company also has long term aspirations to target international markets, particularly English-speaking countries such as the U.S.A. and the U.K. ELMO’s platform can be translated into nearly any language and currently has an eLearning course content library which caters for compliance requirements in four jurisdictions, being Australia (Federal and State), New Zealand, Singapore and Malaysia.

According to Frost & Sullivan, an estimate of the potential market opportunity for ELMO can be made based on the number of organisations in these countries.<sup>11</sup>

In Australia, based on data from the ABS, in June 2016, ELMO’s target market of mid-market organisations (100 to 1,000 employees) included 7,438 organisations and a total addressable market of 8,136 organisations (over 100 employees) out of a total of approximately 2.2 million operating organisations.<sup>13</sup> This however, excludes public sector organisations in Australia which represent an important market for ELMO.<sup>11</sup> According to Frost & Sullivan and Australian Government sources, there are 547 local councils in Australia, and approximately 1,000 Commonwealth, State and Territory government departments and agencies.<sup>11,14</sup> Adding this together with the 8,136 organisations in Australia employing over 100 employees, gives ELMO a total addressable market in Australia of approximately 9,683 organisations.

11. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

12. Deloitte University Press, Global Human Capital Trends, 2016.

13. Australia Bureau of Statistics, Counts of Australian Businesses, June 2016.

14. Based on information from <http://regional.gov.au/local/>



## 2 Industry overview

In New Zealand, data from Statistics New Zealand indicates that in February 2016 there were 2,346 organisations including government agencies and departments, employing over 100 employees, out of a total of 152,193 operating organisations.<sup>15</sup> There is no data available for determining characteristics of organisations which employ more than 1,000 people in New Zealand.<sup>16</sup> This means ELMO has a total addressable market of approximately 12,029 organisations across ANZ.<sup>15,17</sup> Although the Company also currently operates in Singapore, no data is readily available to determine ELMO's addressable market in Singapore and as a result, this market has been excluded.

In the U.K., as at February 2015, there were 23,440 organisations with over 100 employees.<sup>18</sup> In the U.S.A., the latest available data indicates that there were 106,639 organisations with over 100 employees in 2014.<sup>19</sup>

ELMO's total addressable market, defined as organisations with over 100 employees across Australia, New Zealand, the U.K. and the U.S.A., is summarised in Figure 5 below.

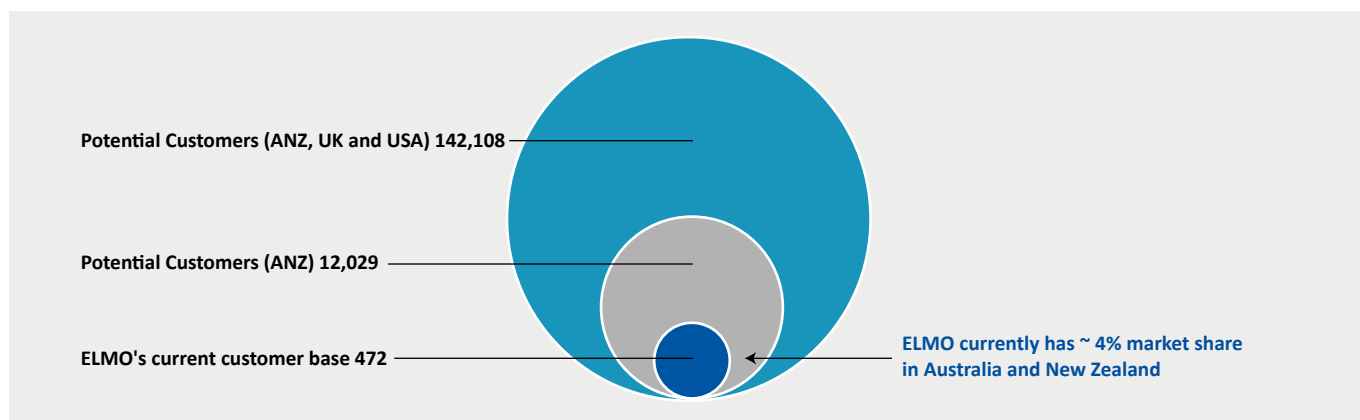
FIGURE 5: ELMO'S TOTAL ADDRESSABLE MARKET BY COUNTRY<sup>16</sup>

Country	Australia	New Zealand	U.K.	U.S.A.	Total
No. of organisations with over 100 employees	9,683	2,346	23,440	106,639	<b>142,108</b>

Note: ELMO's market opportunity estimated above excludes Singapore.

As at 31 December 2016, ELMO had a customer base of 472<sup>20</sup> organisations in ANZ, representing a market penetration rate of approximately 4% in the total addressable market in ANZ of approximately 12,029 organisations.<sup>16</sup> The total addressable market for ELMO across Australia and New Zealand and together with the U.S.A. and the U.K., compared to the Company's current customer base, is illustrated in Figure 6 below.<sup>16</sup>

FIGURE 6: ELMO'S TOTAL ADDRESSABLE MARKET AND CURRENT CUSTOMER BASE<sup>16</sup>



### 2.6 Competitive environment

The competitive environment in the HCM software market is highly fragmented, and includes a number of large global vendors of enterprise software (such as SAP, Oracle and IBM), as well as many specialist vendors offering various HR administration and/or talent management solutions.<sup>16</sup> Several of the large global enterprise software vendors have entered the HCM software market via acquisition of specialist vendors, which include:<sup>16</sup>

FIGURE 7: RECENT ACQUISITIONS WITHIN THE HCM SOFTWARE MARKET<sup>16,21</sup>

Announcement date	Acquirer	Target	Deal Value
3 December 2011	SAP	Successfactors	US\$3.4 billion
9 February 2012	Oracle	Taleo	US\$1.9 billion
4 December 2012	IBM	Kenexa	US\$1.3 billion
23 February 2017	Saba Software	Halogen Software	CAD\$293 million

Note: List of recent acquisitions solution is not exhaustive.

15. Statistics New Zealand, Business Demography Statistics, 2016.

16. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

17. Australia Bureau of Statistics, Counts of Australian Businesses, June 2016.

18. Office for National Statistics, UKBAE Enterprise and local units by Employment size band.

19. US Census Bureau, Number of Firms, Number of Establishments, Employment, and Annual Payroll by Large Enterprise Employment Sizes for the United States, 2014.


20. As at 31 December 2016.

21. Company filings.

HR administration solutions, of which payroll is a key application, have generally been developed by companies with a heritage in accounting software (such as MYOB, Sage and TechnologyOne), for whom the addition of other core HR functionality is a logical complement to their existing product offering.<sup>22</sup> Conversely, talent management solutions have generally been developed by specialist vendors, often starting with a single point solution application before broadening their product suite to comprise a broader set of talent management solutions.<sup>22</sup>

Figure 8 below summarises the main vendors of unified talent management solutions active in the ANZ market, with an indication of their target market, defined by customer size. The segmentation by customer size is not absolute, as many vendors will also sell to clients outside their focus market segment.

FIGURE 8: EXAMPLES OF UNIFIED TALENT MANAGEMENT SOLUTION VENDORS IN ANZ<sup>22</sup>

Large organisations (1,000 employees and above)	SABA	Acendre SAP SuccessFactors	Cornerstone SilkRoad	ORACLE sumtotal	Page Up Workday
Mid-market organisations (100 to 1,000 employees)			Halogen	PeopleStreme	
Small to medium organisations (100 employees and below)	bambooHR enableHR	cognology Flare	EmploymentHero myrecruitment		

Note: List of unified talent management solution providers is not exhaustive, and the positions of those providers in the above table are illustrative only. Products offered by other providers may be used by organisations of varying sizes.

## 2.7 Barriers to entry

ELMO believes there are a number of barriers to entry which may limit the ability of new market participants to enter the HCM software industry. These barriers to entry include:

- **Research and development costs:** New competitors will need to invest a significant amount of time and capital into the design, development, testing and launch of a marketable HCM solutions offering. In addition, any new software enhancements and features must be regularly added to the platform in response to customer feedback and regulatory changes that frequently occur in the HCM industry;
- **Human capital and knowledge:** New competitors will need to attract a sufficient number of adequately skilled and knowledgeable individuals to provide software development, sales and marketing, sophisticated administrative services and other business related functions. Additionally, these individuals often want to be associated with an established and reputable brand;
- **Reputation and brand:** New competitors will need to enter the market with an extensive sales and marketing program, which is likely to be costly and time intensive, in order to sufficiently build reputation and brand recognition within the HCM industry. Reputation and branding within the HCM industry is important for any market player as customers are typically attracted to well-known brands that are industry recognised compared to new market entrants;
- **Regulatory compliance:** New competitors will incur significant costs associated with adhering to relevant Federal, State and Territory regulations for each jurisdiction in which they provide HCM solutions. This may be a prohibitive factor for potential market entrants; and
- **Government accreditation:** In order to achieve government accreditation and be approved for government supplier panels, a new entrant will need to build an understanding of complex government procurement processes. Compliance with government mandated hosting and privacy regulations are also logistically challenging for new entrants.

22. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.



3

# COMPANY OVERVIEW

### 3.1 Overview of ELMO

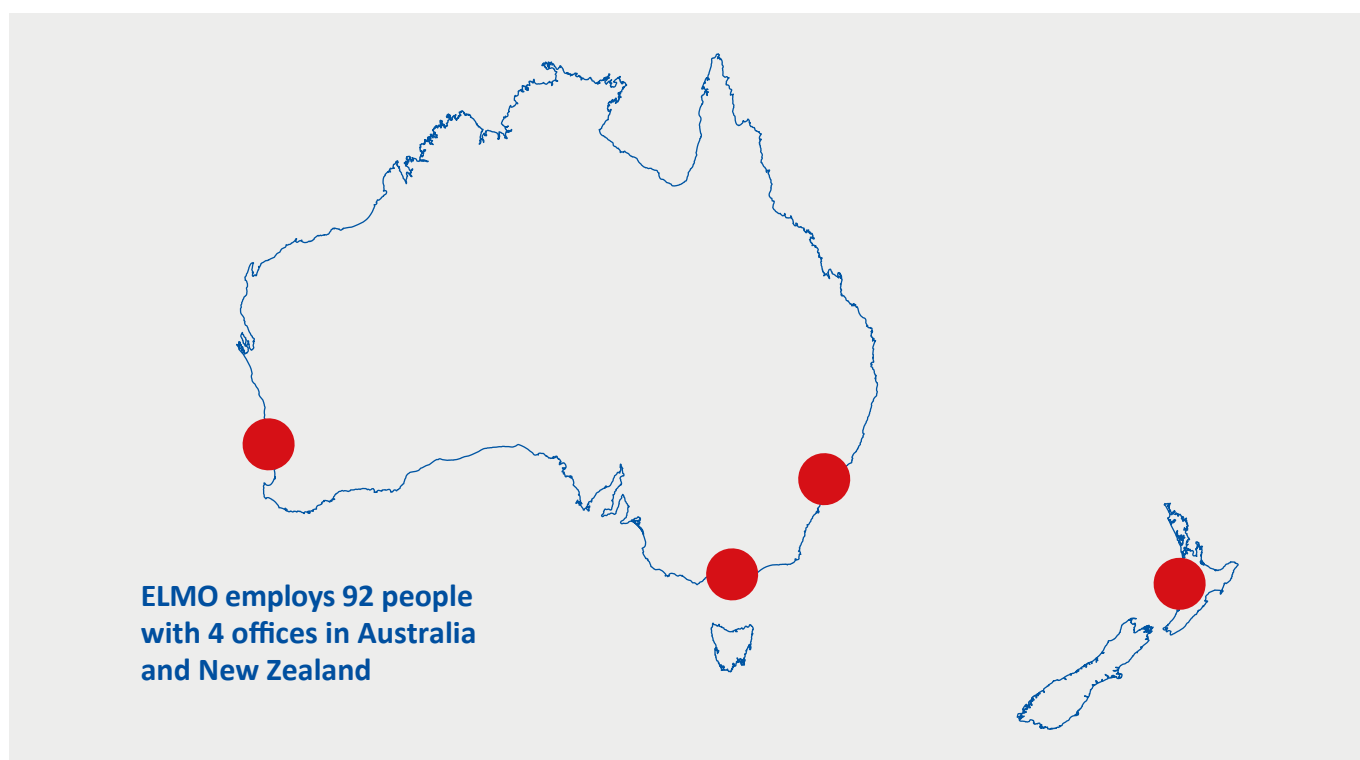
ELMO is one of Australia and New Zealand's leading providers of integrated talent management software solutions. The Company's solutions are deployed via the cloud under a SaaS model that generates high levels of recurring revenues (93% in FY16<sup>1</sup>). ELMO's solutions are used by 472<sup>2</sup> organisations across 13,<sup>2,3</sup> different industries and currently has a customer base spanning across Australia, New Zealand and Singapore.

ELMO's platform provides organisations with a centralised approach to manage the lifecycle of an employee from hire to retire. The Company develops and sells a range of modular software products to efficiently manage HR related processes including recruitment, onboarding, performance management, learning and development and succession planning. Additionally, ELMO's platform provides a software module called HR Core, which organisations use for people management and employee self-service. ELMO's IP is developed in-house by the Company's internal software development team who are based in Australia. ELMO delivers its talent management software solutions using a technology foundation that leverages the benefits of scalable cloud computing through a multi-tenant infrastructure network with a single source code. This means ELMO is able to deliver its solutions in a functional, flexible and fast manner to its customers. As a result, ELMO's customers benefit by transitioning from existing legacy on-premise HCM systems or manual paper-based HCM solutions to ELMO's SaaS, cloud-based solutions. ELMO's platform reduces the need for its customers to purchase and support a broad range of IT software and hardware to manage their HCM processes.

ELMO's proprietary platform is designed to assist its customers to better manage the complexities of the HR function by offering user-friendly, productivity enhancing, easy to integrate and cost-effective talent management software solutions. ELMO employs a continuous improvement approach to its SaaS offering to ensure the platform meets customer expectations and the requirements of HR stakeholders.

The Company's solutions have been optimised to address the HCM requirements of mid-market organisations. However, ELMO's platform is also designed and built to be scalable, and is also used by large organisations with over 1,000 employees. ELMO's operations are currently supported by 92<sup>4</sup> employees across four offices in Australia and New Zealand, as shown in Figure 9 below.

FIGURE 9: ELMO'S OFFICE LOCATIONS<sup>4</sup>



1. Based on FY16 pro forma revenue.

2. As at 31 December 2016.

3. Includes construction and mining, education, finance, government, healthcare and pharmaceuticals, hospitality, industrials, IT, telecommunications and media, not for profit organisations, professional services, property, retail and transport.

4. As at 28 February 2017.



## 3 Company overview

### 3.2 Company history

ELMO was founded in 2002 by Danny Lessem, the Company's CEO, and Manuel Garber, an Existing Shareholder, for the purpose of providing an eLearning platform with customised content for compliance and training. Since inception, ELMO's solutions have been built and developed using a SaaS, cloud-based infrastructure.

During the initial phase following launch, ELMO began to build an eLearning course library that the Company continues to grow, develop and invest in today with additional eLearning content as part of its Pre-Built Courses module. This module currently provides customers with over 400 different eLearning courses, including compliance and policy, organisational process, systems, professional development and soft skills.

In 2007, ELMO's talent management software solutions received its first Australian Government supplier panel arrangement with the Queensland Government. In 2011, after receiving feedback from customers, ELMO began to expand its platform with the objective of offering a full suite of talent management software solutions to service the changing requirements of the HR function. This transition began with the launch of the Course Builder and Learning Management System (**LMS**) modules.

In 2013, ELMO's customer base reached over 130 organisations. During that year, ELMO also began shifting the Company's focus towards addressing the HCM requirements of mid-market organisations, which ELMO viewed as an underserved market that presented attractive market opportunities.

In 2014, ELMO continued to expand its solutions offering with the introduction of its Performance module. In addition, the Company received several government accreditations and introduced the Australian Human Resources Institute (**AHRI**), the national association representing human resource and people management professionals, as a customer.

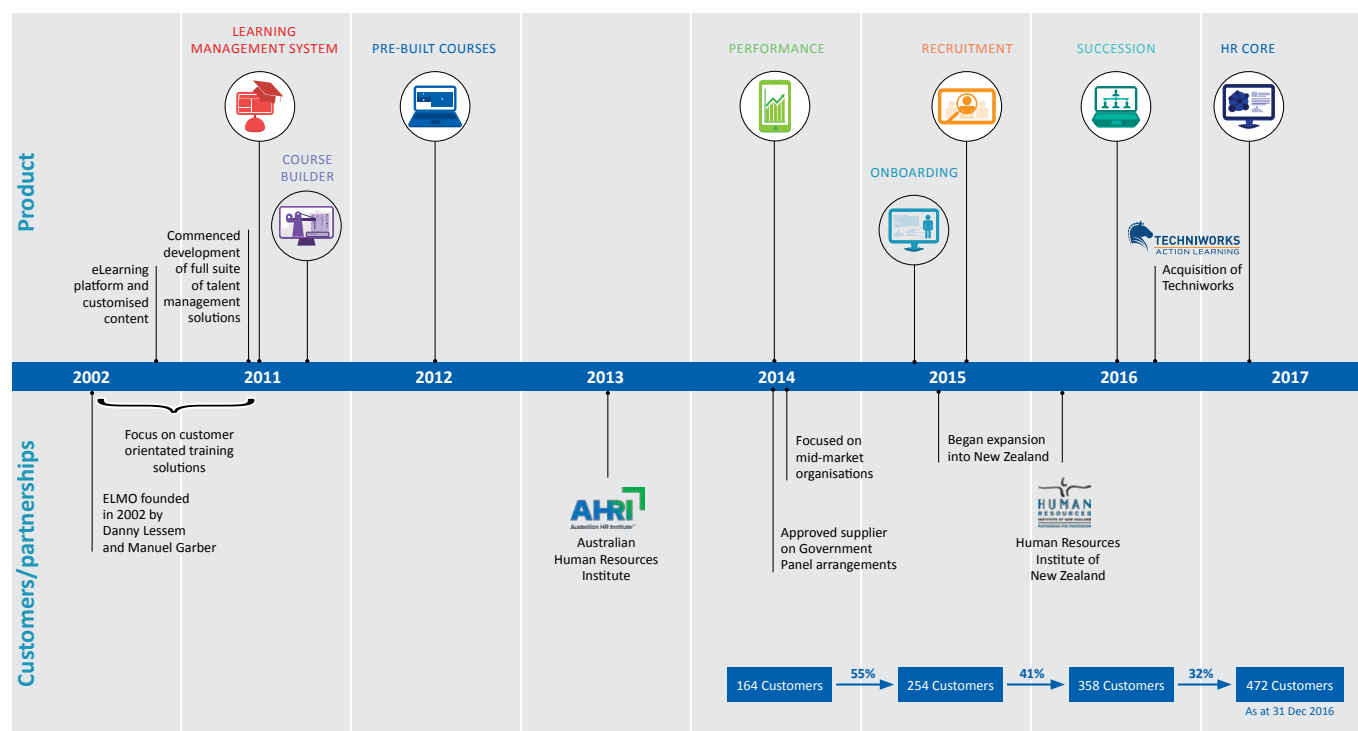
In 2015, ELMO expanded into New Zealand and Singapore, and its customer base grew to over 250 organisations, including the Human Resources Institute of New Zealand (**HRINZ**). Additionally, following ELMO's ongoing commitment to investing in research and development to expand its product suite, the Company launched its Onboarding and Recruitment modules.

In 2016, the Company continued to expand its solutions offering with the launch of its Succession module and had grown its customer base to over 350 organisations. In October 2016, ELMO completed its first acquisition, being Techni Works, an Australian eLearning company specialising in the provision of Australian focused eLearning courses. The acquisition of Techni Works expanded ELMO's course library and added 82 new organisations to the Company's existing customer base, which included tertiary education institutions and government organisations at the Commonwealth, State and Local levels.

In 2017, ELMO formally launched its first HR Administration product with the release of its HR Core module.

Today, ELMO continues to focus on platform expansion with continuous product development and enhancement, and is currently in the process of developing additional HCM modules. As at 31 December 2016, the Company's solutions were being used by 472<sup>5</sup> organisations. A summary of ELMO's history is provided below in Figure 10.

FIGURE 10: OVERVIEW OF ELMO'S HISTORY



5. As at 31 December 2016.

### 3.3 Product overview

ELMO provides a talent management software solutions platform that aims to address and automate key HCM activities and processes. The platform currently offers seven talent management software modules that address various stages of an employee's lifecycle from hire to retire. Figure 11 below provides a summary of the key functionalities of the individual modules. Customers who are subscribed to the Learning module are also provided with the Course Builder module as part of the offering.

FIGURE 11: OVERVIEW OF ELMO'S PLATFORM AND TALENT MANAGEMENT SOFTWARE SOLUTIONS



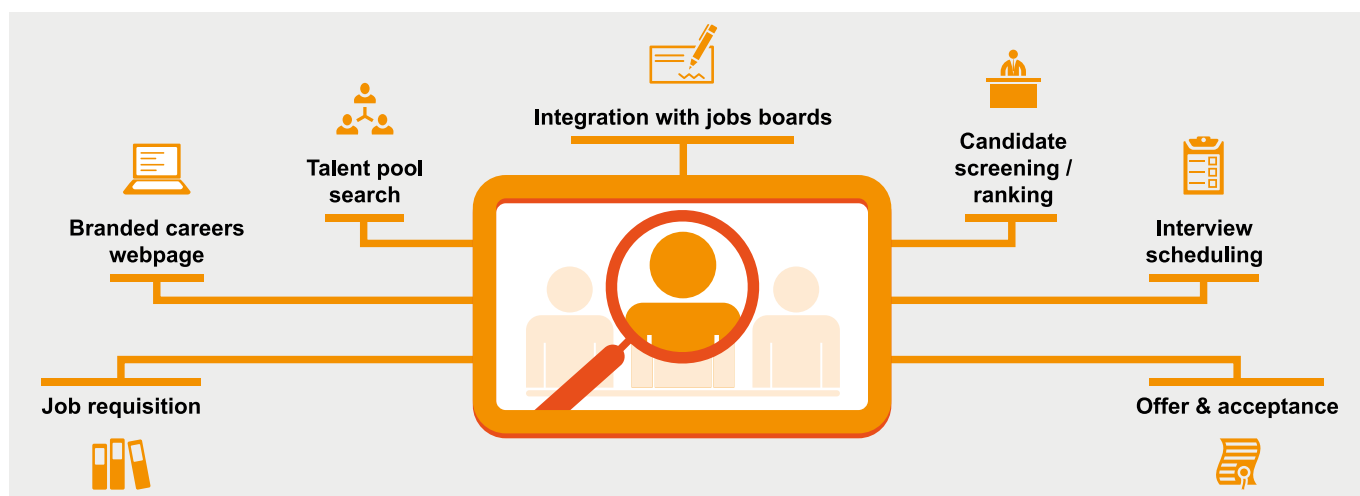
ELMO's customers have the option of subscribing to a tailored suite of talent management software solutions to suit their HCM requirements, with the flexibility to seamlessly add additional modules as their needs change. On average, new customers currently subscribe to two<sup>6</sup> modules, the most popular being ELMO's Learning module.

#### 3.3.1 Recruitment

**Attract, engage and select the most suitable candidate**



FIGURE 12: SUMMARY OF ELMO'S RECRUITMENT MODULE FUNCTIONALITY



ELMO's Recruitment module allows organisations to manage and drive their recruitment process and strategy. The module provides system administrators with tools to manage and streamline recruitment processes, allowing organisations to source quality talent to suit the required role.

6. As at 31 December 2016.

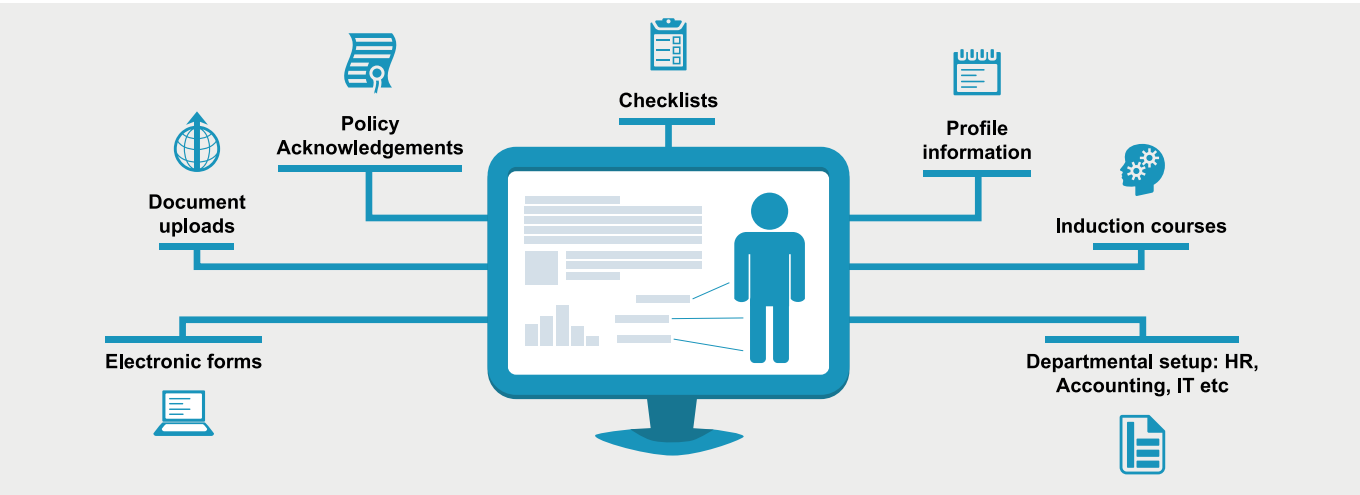
# 3 Company overview

## 3.3.2 Onboarding

Start a new employee’s journey with a personalised onboarding experience



FIGURE 13: SUMMARY OF ELMO’S ONBOARDING MODULE FUNCTIONALITY



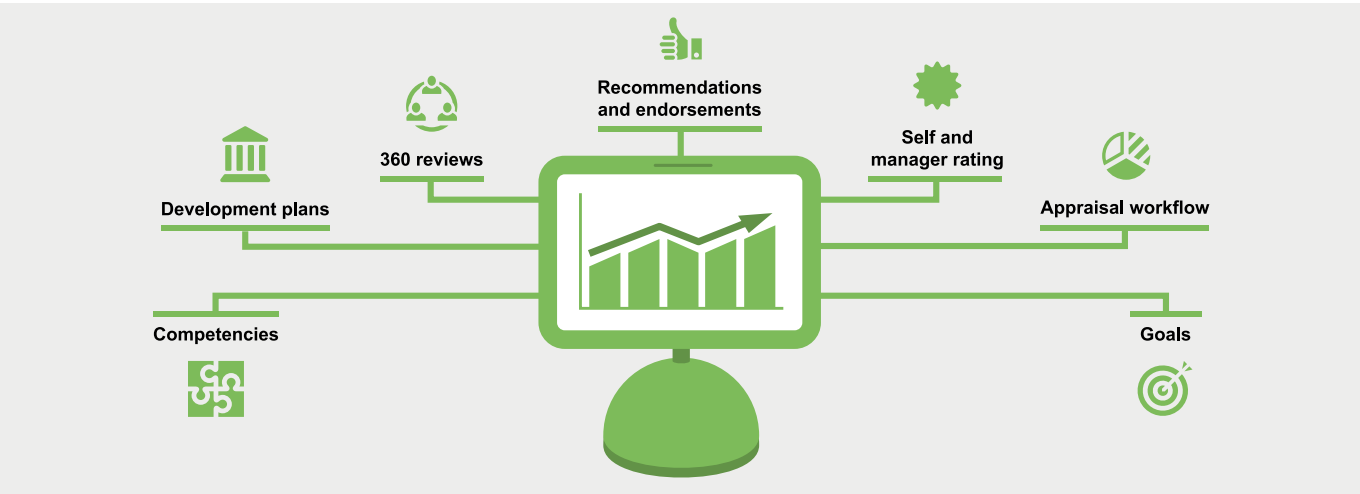
ELMO’s Onboarding module allows organisations to create a personalised experience for new employees, providing them with key information, an introduction to their team, as well as a list of key initial tasks to be completed. The Document Builder, included as part of the module, provides organisations with a tool to capture key information digitally (e.g. TFN Declaration and Superannuation Choice forms) which effectively reduces administrative overhead costs and improves record keeping and reporting.

## 3.3.3 Performance

Industry leading capability to align individual and department goals with the organisation’s strategy



FIGURE 14: SUMMARY OF ELMO’S PERFORMANCE MODULE FUNCTIONALITY



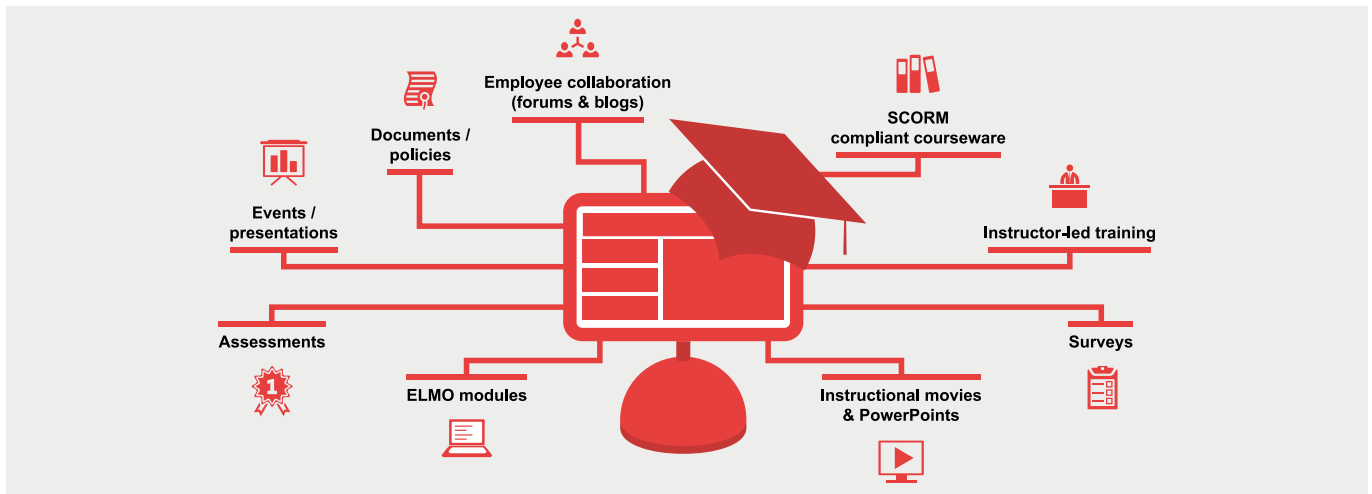
ELMO’s Performance module provides organisations with software to drive and monitor organisational workflows, productivity and objectives. The module assists with aligning individual and team goals with organisational strategies, empowerment of employees, development of a performance culture and mitigation of risks associated with turnover.

### 3.3.4 Learning Management System (LMS)

**Sophisticated LMS platform, configured for organisation requirements**



FIGURE 15: SUMMARY OF ELMO'S LEARNING MODULE FUNCTIONALITY<sup>7</sup>



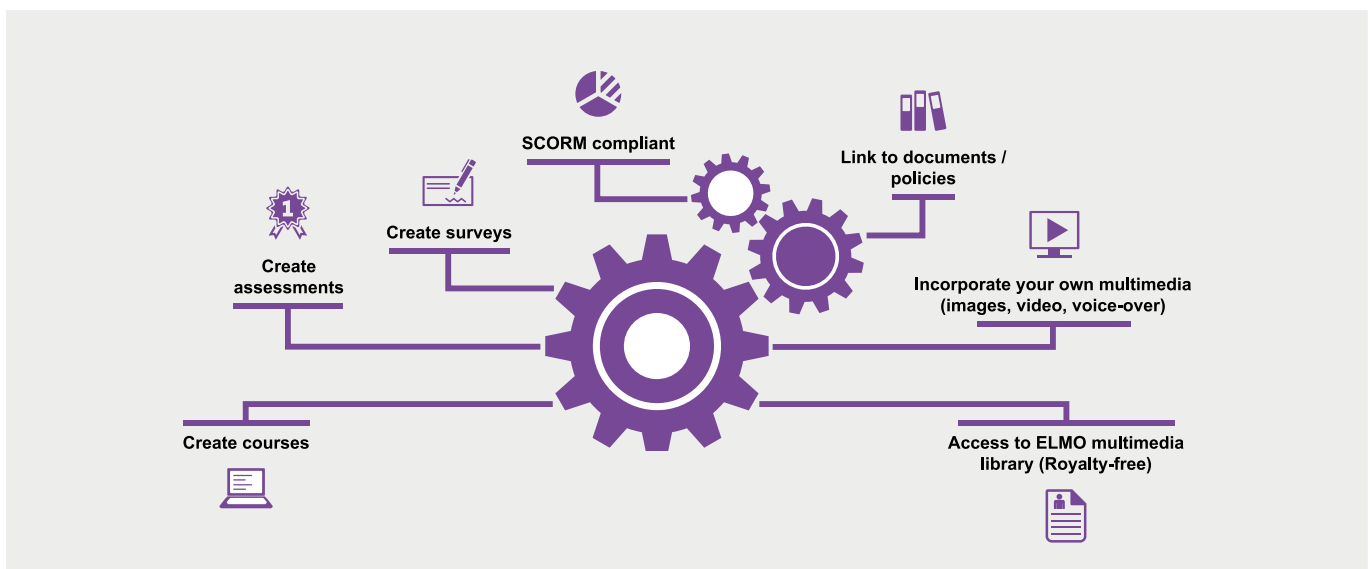
ELMO's LMS module assists HR teams with managing organisational learning and development initiatives. The LMS module aims to ensure compliance, improve employee engagement, accelerate employee performance, and support organisational goals.

#### 3.3.4.1 Course Builder

**Rapid eLearning course development capability**



FIGURE 16: SUMMARY OF ELMO'S COURSE BUILDER MODULE FUNCTIONALITY



ELMO's Course Builder module, which forms part of the LMS module, provides software to organisations to build and maintain their own eLearning content. With Course Builder, ELMO aims to provide organisations with a scalable learning approach that requires minimal time and cost to deploy, improves content retention, enables on-demand and just-in-time learning, and improves employee engagement.

7. SCORM stands for Sharable Content Object Reference Model.



# 3 Company overview

## 3.3.5 Pre-Built Courses

Best practice and up-to-date compliance content ready for deployment



ELMO’s Pre-Built Courses module provides organisations with access to an extensive course library that can be used to deploy effective and engaging eLearning content. Customers have the option of subscribing to the full course library, or to a specific number of courses. The quality of the eLearning course library is enhanced with best practice instructional design. Additionally, the course content is monitored and updated by ELMO’s dedicated in-house industry professionals and product development team to ensure compliance with Federal, State and Territory regulations and laws in the relevant jurisdictions.

Currently, the Pre-Built Courses module provides over 400 eLearning courses which range from compliance and policy (including safety, environment, professional conduct, and finance), organisational process and systems (including project management, quality, ICT, and Microsoft Office), through to professional development and soft skills (including communication, customer service, leadership and management, and sales).

FIGURE 17: ELMO’S PRE-BUILT COURSES LIBRARY CATEGORIES

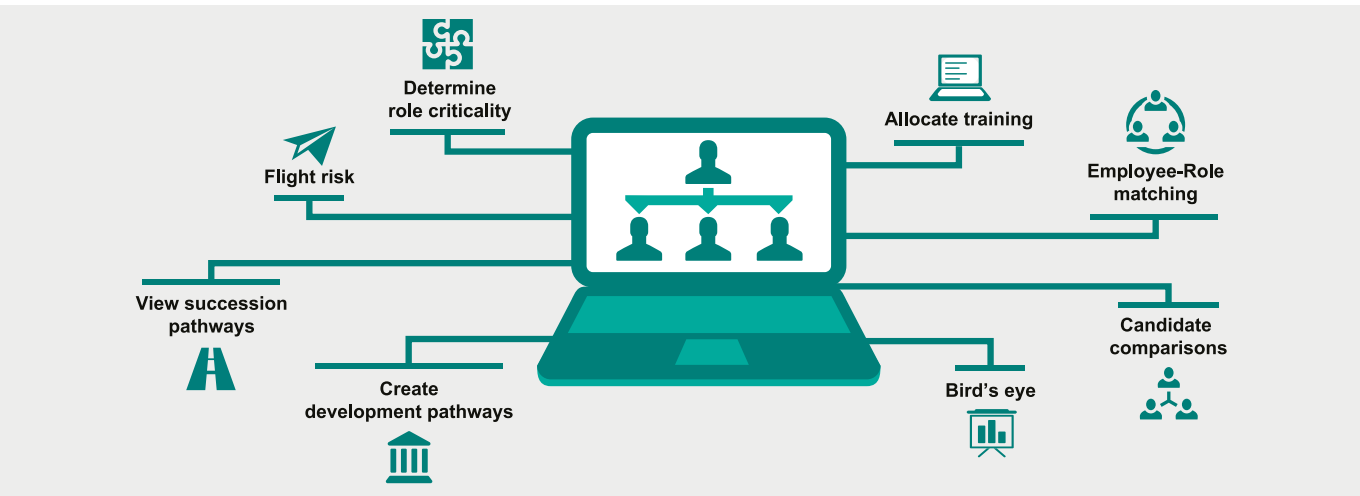
COURSE LIBRARY CATEGORIES WITH OVER 400 COURSES		
Business management	Health and safety	Project management
Communication and personal development	Healthcare and clinical	Quality assurance
Customer service	Induction	Sales
Equal employment opportunity	Information and communication technology	Sustainability/environment
Ethics and conduct	Leadership and management	Talent management
Finance	Microsoft Office	More to come...

## 3.3.6 Succession

Developing organisations talent pipeline by nurturing high potential individuals



FIGURE 18: SUMMARY OF ELMO’S SUCCESSION MODULE FUNCTIONALITY



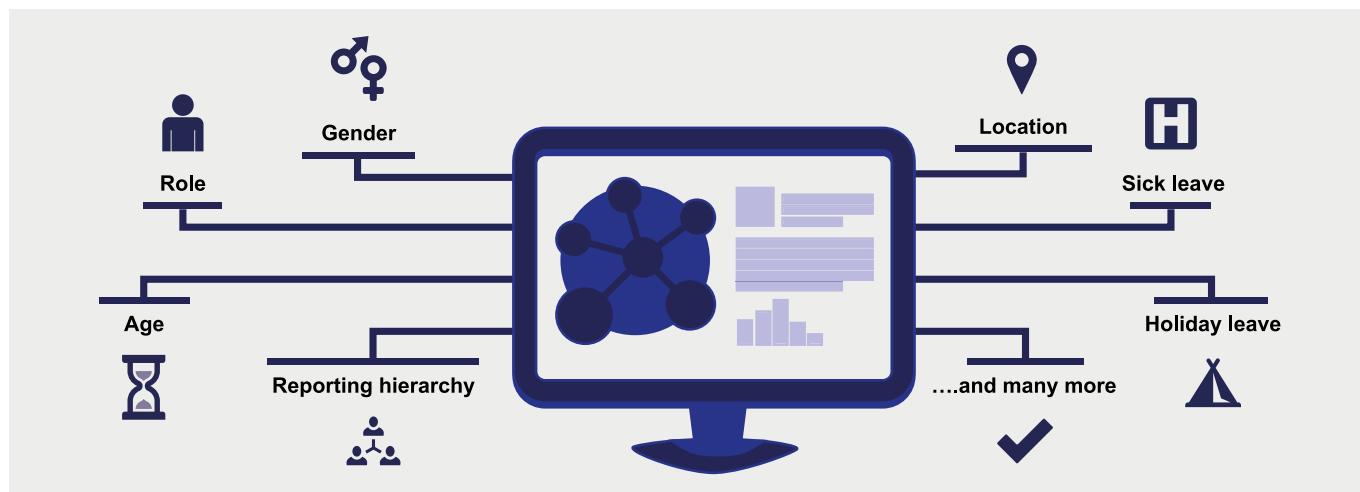
ELMO's Succession module provides organisations with tools to analyse their talent and identify employee strengths and weaknesses. This module combines information from performance reviews with detailed assessments on individual staff potential, criticality and flight risk ratings. With this module, system administrators are able to create tailored and detailed development plans and objective targets for individual employees.

### 3.3.7 HR Core

Centralise and automate people management on a single platform



FIGURE 19: SUMMARY OF ELMO'S HR CORE MODULE FUNCTIONALITY

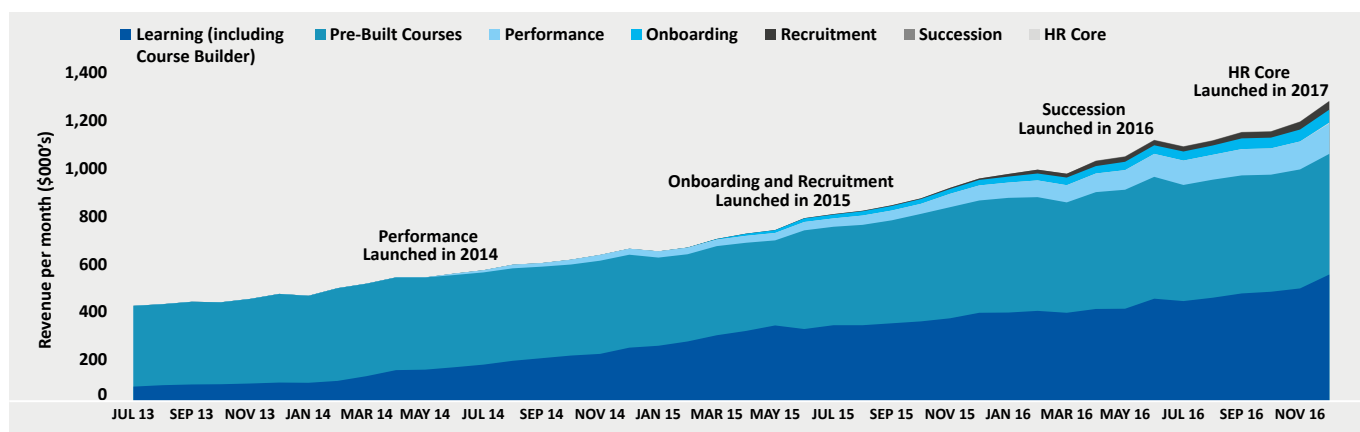


ELMO's HR Core module is a centralised software system for people management and employee self-service, including record keeping of employee information, leave management, benefits administration and expense management. With HR Core, an organisation's employees and managers are able to easily access documents, information and tasks to automate approval and notification workflows. System administrators are provided with oversight and control over these processes, with consistent approval and audit records for a variety of tasks.

### 3.3.8 Financial summary of ELMO's modules

Figure 20 below shows ELMO's statutory SaaS revenue by module from 1 July 2013 to 31 December 2016, which shows a relatively consistent increase over time as ELMO's customer base grows, new modules are released and existing customers subscribe to additional modules on the platform. Customers typically pay an annual fee in advance over the term of the contract which is recognised as revenue as ELMO delivers its software solutions to users.

FIGURE 20: ELMO'S STATUTORY SAAS REVENUE BY MODULE FROM 1 JULY 2013 TO 31 DECEMBER 2016<sup>8,9</sup>



A number of ELMO's modules have been released in the last three years and are therefore in the early stages of commercialisation, but are expected to contribute materially to future growth and earnings.

8. Performance module and Onboarding Module was released by ELMO in 2015.

9. HR Core was formally launched in 2017 with one initial pre-sale in December 2016.

## 3 Company overview

Figure 21 and Figure 22 below presents some analysis on ELMO's 60 new customers,<sup>10,11</sup> added during the period from 1 July 2016 to 31 December 2016. As shown, Learning (including Course Builder) is the most popular module, contributing to approximately 43% of total contract value and total new subscriptions of 46. A total of 116 new subscriptions were contracted during the period, which represents an average module take up of 1.93 modules per customer.

FIGURE 21: ELMO'S NEW CUSTOMER CONTRACT VALUES<sup>12</sup> FROM 1 JULY 2016 TO 31 DECEMBER 2016<sup>13</sup>

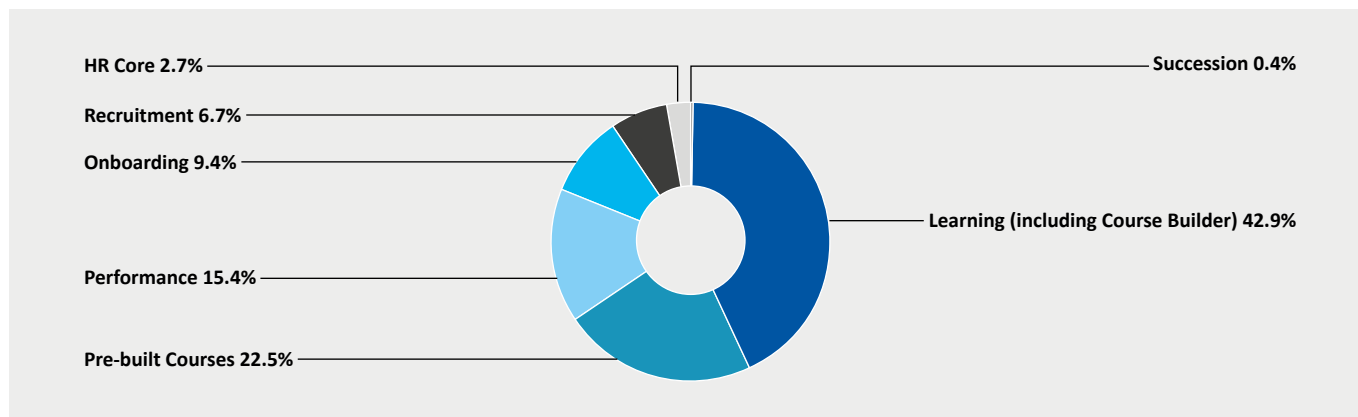
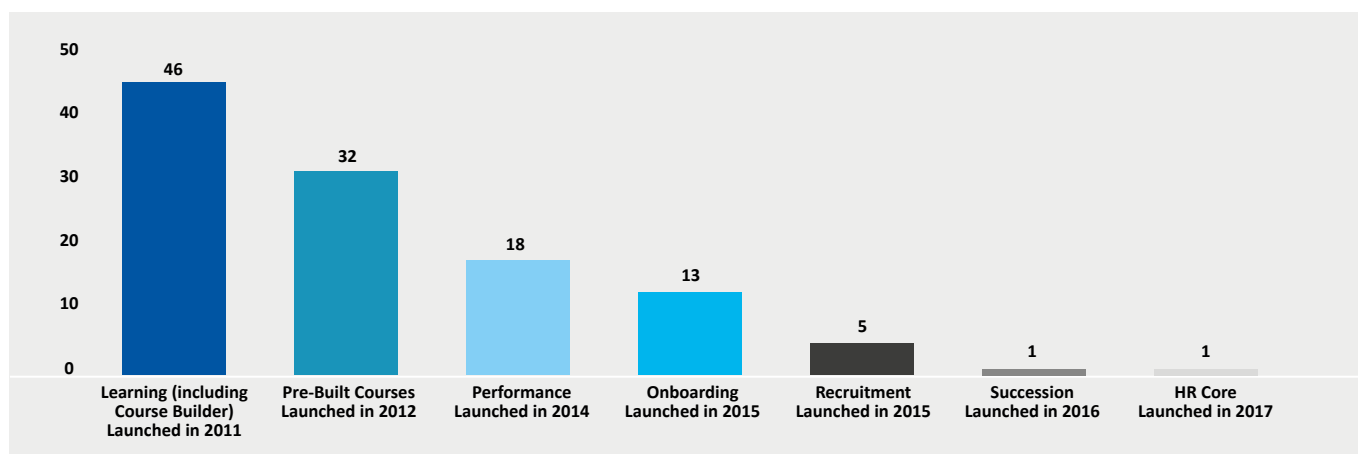


FIGURE 22: ELMO'S NEW CUSTOMER MODULE SUBSCRIPTIONS FROM 1 JULY 2016 TO 31 DECEMBER 2016<sup>13</sup>



### 3.4 Product strengths

ELMO believes its platform and product offering has several competitive strengths, which include:

#### 3.4.1 Hire to retire HCM solutions provider

ELMO believes that the HCM requirements of many organisations are currently serviced either by manual paper-based processes, legacy on-premise systems or use multiple point solution providers to replicate a broad HCM solution offering. ELMO's full suite of talent management software solutions aim to address the various stages of an employee's lifecycle from hire to retire with a more flexible and comprehensive HCM solution compared to alternative offerings.

By adopting ELMO's integrated platform, all HR functions operate on a single system across a universal database, thereby eliminating the operational costs and complexities associated with managing multiple software systems and databases. This allows users within the organisation to have access to real time data, which facilitates streamlined business processes, improved coordination and productivity across the organisation.

10. New customers refer to customers that previously had not contributed to ELMO's revenue but have contributed to ELMO's revenue between the period from 1 July 2016 to 31 December 2016, inclusive.

11. Excludes 82 customers from the acquisition of Techni Works Pty Limited in October 2016.

12. Contract value represents the entire value of the lifetime of the contract the customer has signed up for.

13. HR Core was formally launched in 2017 with one initial pre-sale in December 2016.

### 3.4.2 Extensive course library

For over 15 years, ELMO has invested capital and resources into the development and expansion of its industry leading eLearning course library. ELMO's course library currently has over 400 eLearning courses which cover a broad range of topics, including compliance and policy, organisation process and systems, through to professional development and soft skills. All content provided within ELMO's course library is written by the Company's instructional design team and is monitored and updated for compliance changes across Australia (including Federal and State), New Zealand, Singapore and Malaysia. With ELMO's course library, organisations have access to a comprehensive range of industry specific content addressing a wide range of needs. Management believes that the Company's extensive course library is a key differentiator between ELMO's solutions compared to other unified HCM providers that service mid-market organisations.

### 3.4.3 SaaS cloud-based platform from day one

Since inception, ELMO's talent management software solutions have been built on a SaaS, cloud-based platform, which offers a more flexible, and effective HCM solution compared to alternative on-premise software solutions. ELMO considers on-premise systems to be an outdated, inefficient and costly software delivery model. Under a SaaS, cloud-based model, ELMO's customers benefit from incurring lower costs and seamless integration processes. Additionally, all software maintenances and upgrade processes are easily installed and can be managed remotely.

### 3.4.4 Optimised for mid-market organisations

ELMO provides talent management software solutions targeted primarily at mid-market organisations. This approach contrasts with the unified talent management solutions provided by many HCM SaaS providers which typically target large enterprise and government organisations. These solutions often involve long implementation cycles, higher implementation costs, ongoing fees and extensive support. ELMO has tailored its solutions and platform to suit mid-market organisations in the following ways:

- **designed for the mid-market:** The ELMO platform has been designed to be administered by a small HR team which is typical for the mid-market without unnecessary complexity;
- **priced for the mid-market:** ELMO's offering is priced appropriately for the mid-market. Unlike HCM solution providers who focus on large enterprises and who usually charge significant implementation and support fees, ELMO generally does not charge these types of fees;
- **short implementation cycle:** ELMO's solutions typically require a period of six to eight weeks from initial engagement to full implementation and active release to the customer. This contrasts with other unified talent management solution providers that can require a period of six months to a year before customers have access to the HCM solutions;
- **ready to use best practice course library:** With ELMO's Pre-Built Courses module, customers have access to an extensive course library with over 400 eLearning courses rather than having to create their own course library. ELMO's eLearning courses are also customisable, allowing customers to edit for their internal training practices, which offers a substantial benefit to mid-market organisations who often do not have the capacity to originate training materials themselves; and
- **scalable unified talent management software solution:** ELMO's talent management software solutions consist of various modules which are sold as modular applications, enabling customers to add modules seamlessly as their HCM requirements expand.

### 3.4.5 Approved Government supplier

In 2007, ELMO became an approved panel supplier of talent management software solutions to the Queensland Government, which in 2014 extended to the Commonwealth, several other State, and also Local government departments and agencies. The award of an Australian Government accreditation requires the applicant to satisfy an extensive list of strict requirements which includes an Australian based in-house software development team, localised hosting and data centres, as well as a demonstrated track record of success. ELMO's government sector customers contributed approximately 26% of ELMO's FY16 statutory revenue.

### 3.4.6 User-friendly interface and device agnostic platform

ELMO's talent management software solutions are designed to be simple and easy to use to minimise integration complications and reduce the requirement for training to be provided to customers. Users also are not restricted to desktop computers as ELMO's platform can be accessed via the internet through a web browser interface on any internet connected device including laptops, tablets and smartphones.

### 3.4.7 Integrates with external software programs and applications

ELMO's platform has been constructed and designed for practicality to minimise integration complexities with third party systems that customers may be currently using within their organisation, such as payroll, on-premise systems or internal databases. This means customers are able to retain their existing operating systems and databases, which in turn encourages the uptake of ELMO's solutions.

In addition, the Company's Onboarding module is integrated with the Australian Taxation Office. This allows ELMO's customers that are subscribed to the Onboarding module to electronically manage the Tax File Number Declaration process through ELMO's platform, replacing the traditional paper-based filing process required for new employees.

# 3 Company overview

## 3.5 Business model

### 3.5.1 Target mid-market organisations




ELMO’s talent management software solutions and business model have been primarily built to address the HCM requirements of mid-market organisations. Currently, many SaaS HCM providers that offer a unified talent management solution target large enterprise and government organisations (over 1,000 employees). The talent management solutions offered by these providers are typically costly to implement, require significant time investment and involve complex integration processes making such solutions unsuited in addressing the HCM requirements of mid-market organisations. As a result, mid-market organisations have limited HCM solution options and many existing solution providers only address a single vertical of the various HR functions. As a result, ELMO believes this has created a large underserved market, which is growing as HR managers in mid-market organisations are increasingly recognising the strategic importance of talent management. ELMO believes mid-market organisations require more flexible and cost effective talent management software solutions that can be delivered on shorter sales cycles, with simpler implementation processes than those currently provided by HCM solution providers who are typically focused on larger enterprises.

### 3.5.2 Multi-jurisdictional and industry agnostic

ELMO’s talent management software solutions have been designed to be scalable on an international basis with its multi-jurisdictional and industry agnostic platform. ELMO currently provides talent management software solutions to customers based principally in Australia, New Zealand and Singapore, however, the platform can be translated into nearly any language and is multi-jurisdiction compatible.

ELMO currently deploys its talent management software solutions across 13<sup>14</sup> different industries:

FIGURE 23: INDUSTRIES ELMO’S TALENT MANAGEMENT SOFTWARE SOLUTIONS ARE DEPLOYED IN:

INDUSTRIES ELMO’S TALENT MANAGEMENT SOFTWARE SOLUTIONS ARE DEPLOYED IN		
 Construction and mining	 Hospitality	 Professional services
 Education	 Industrials	 Property
 Finance	 Information Technology telecommunications and media	 Retail
 Government	 Logistics	
 Healthcare and pharmaceuticals	 Not for profit	

### 3.5.3 Revenue generation

ELMO generated over 93% of its FY16 pro forma revenue from subscription-based fees for its talent management software solutions. Typically, customers enter into three year contracts with ELMO for access to its solutions. It is customary for ELMO to be paid annually in advance by the customer, with revenue recognised evenly over the twelve months of the contract. The amount of the annual fee is dependent on the number of modules subscribed for by the customer and the number of users on the platform.

In addition to subscription-based fees, ELMO also generates revenue from charging professional service fees for providing non-standard implementation, configuration, training and integration services as well as other revenue including government grants.

14. As at 31 December 2016.



A summary of ELMO's revenue model is provided in Figure 24 below.

FIGURE 24: ELMO'S REVENUE MODEL

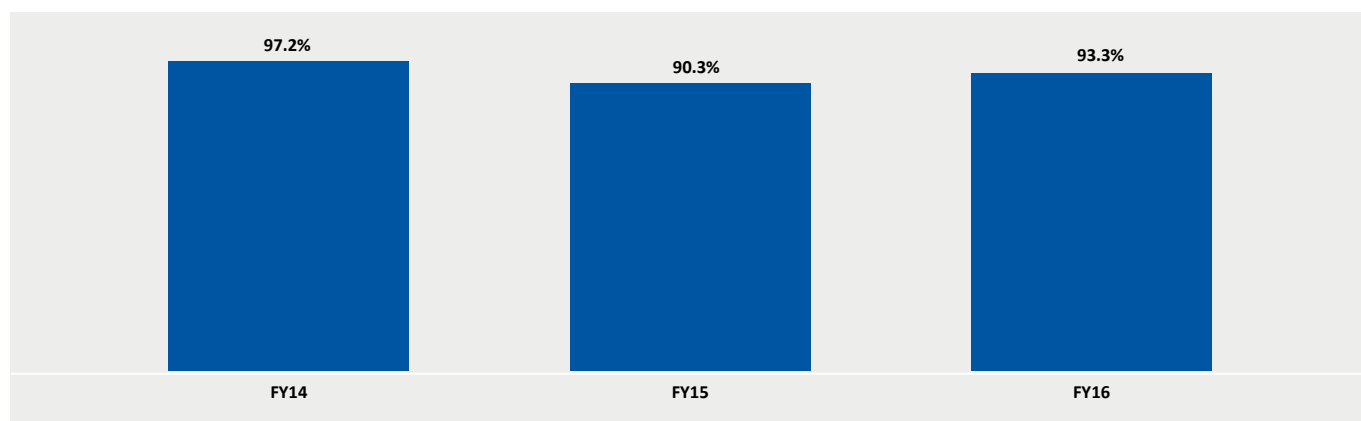
Customer	% of FY16 statutory revenue	Revenue model	Revenue recognition policy	Description
Recurring revenue	~93%	SaaS subscription fee	<ul style="list-style-type: none"> <li>ELMO's recurring revenue is recognised evenly on a monthly basis. The balance of the revenue received in advance is categorised as a liability (known as deferred income).</li> </ul>	<ul style="list-style-type: none"> <li>ELMO typically receives an annual fee, payable in advance over the term of the contract</li> <li>Amount of fee varies depending on the number of modules subscribed for and the number of users on the platform</li> <li>Customers are invoiced on an annual basis throughout the term of the contract</li> </ul>
Professional services fees	~7%	Consultation or integration fees	<ul style="list-style-type: none"> <li>ELMO's professional service fees are recognised as revenue once delivery of the required services is completed</li> </ul>	<ul style="list-style-type: none"> <li>ELMO receives a professional service fee associated with providing implementation, configuration and integration services as well as other services</li> <li>Fees are typically invoiced during the first year of the contract</li> <li>Amount of fee varies depending on the level of service provided and complexity of the process</li> </ul>

#### Attractive cash flow profile

ELMO's attractive financial and cash flow profile is supported by the high recurring revenue, strong customer retention rates and favourable payment terms as a result of the Company's SaaS-based revenue model, as explained below:

- **high recurring revenues:** ELMO has a high proportion of revenue that is classified as recurring in nature (recurring revenue) as shown in Figure 25 below, which is a result of the subscription based revenue model.

FIGURE 25: ELMO'S RECURRING REVENUE AS A PERCENTAGE OF TOTAL PRO FORMA REVENUE



ELMO's recurring revenue as a percentage of total pro forma revenue experienced a slight decline in FY15 to approximately 90% which was the result of an increase in other income<sup>15</sup>. This increase is due to the strong growth in the Company's customer base of 56%, additions of large enterprises and government organisations and the operational expansion into New Zealand and Singapore which required additional non-standard implementation and configuration processes to be undertaken.

15. Other income is professional services in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants.

### 3 Company overview

- **strong customer retention rates:** ELMO provides regular software upgrades and enhancements as well as offers upsell and cross-sell opportunities to its existing customer base which further entrenches ELMO's talent management software solutions into the customer's user base and improves the value of ELMO's solutions to the organisation. As a result, ELMO experiences high customer retention rates<sup>16</sup> of approximately 93%. The Company's revenue dollar retention rate<sup>17</sup> was over 120% in FY16 as customers continued to renew their contract(s), subscribe for additional modules and scale the platform to a larger user base within the organisation. ELMO's high customer retention rates and revenue dollar retention rates are shown in Figure 26 and Figure 27 below.

FIGURE 26: ELMO'S CUSTOMER RETENTION RATES<sup>16</sup>

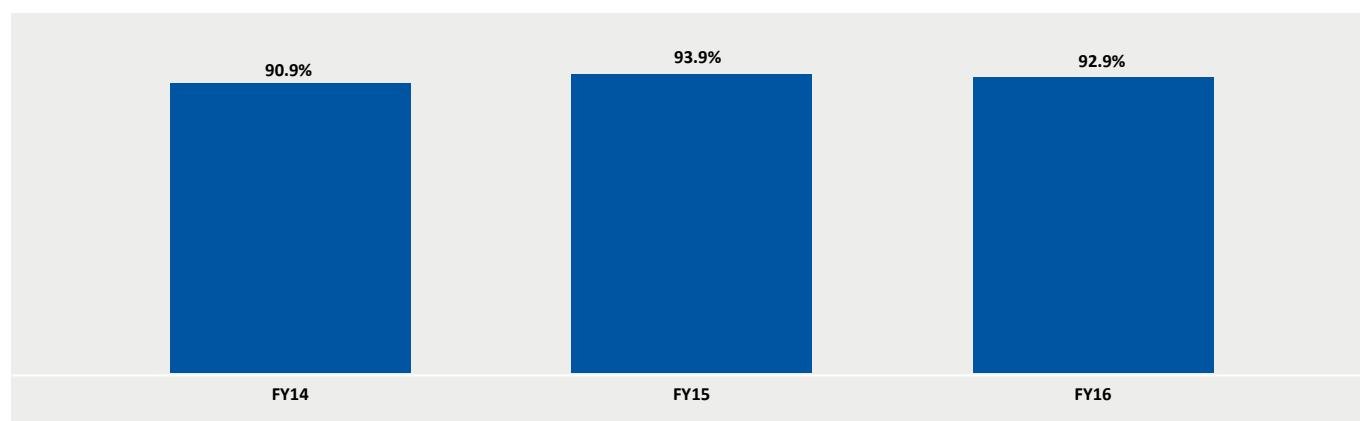
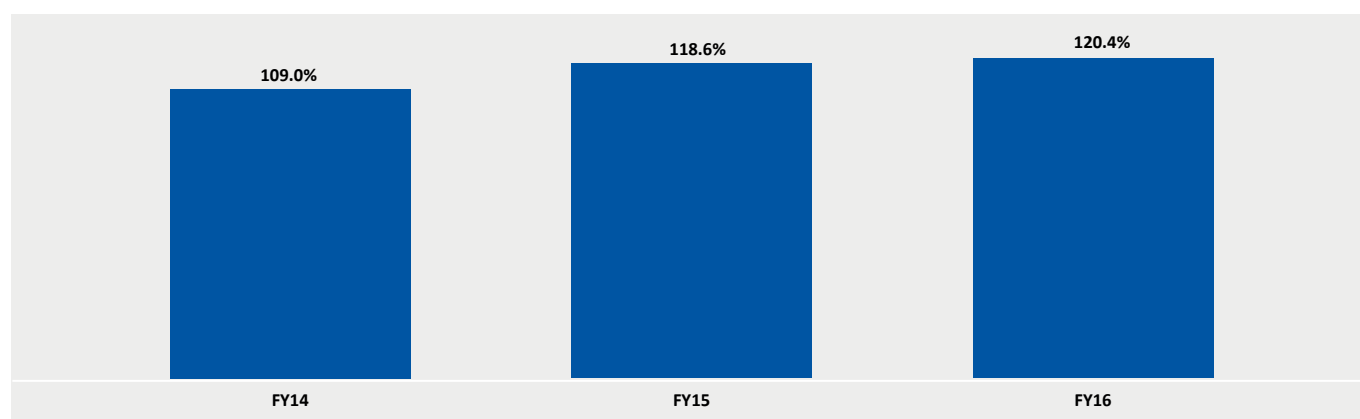


FIGURE 27: ELMO'S REVENUE DOLLAR RETENTION<sup>17</sup>

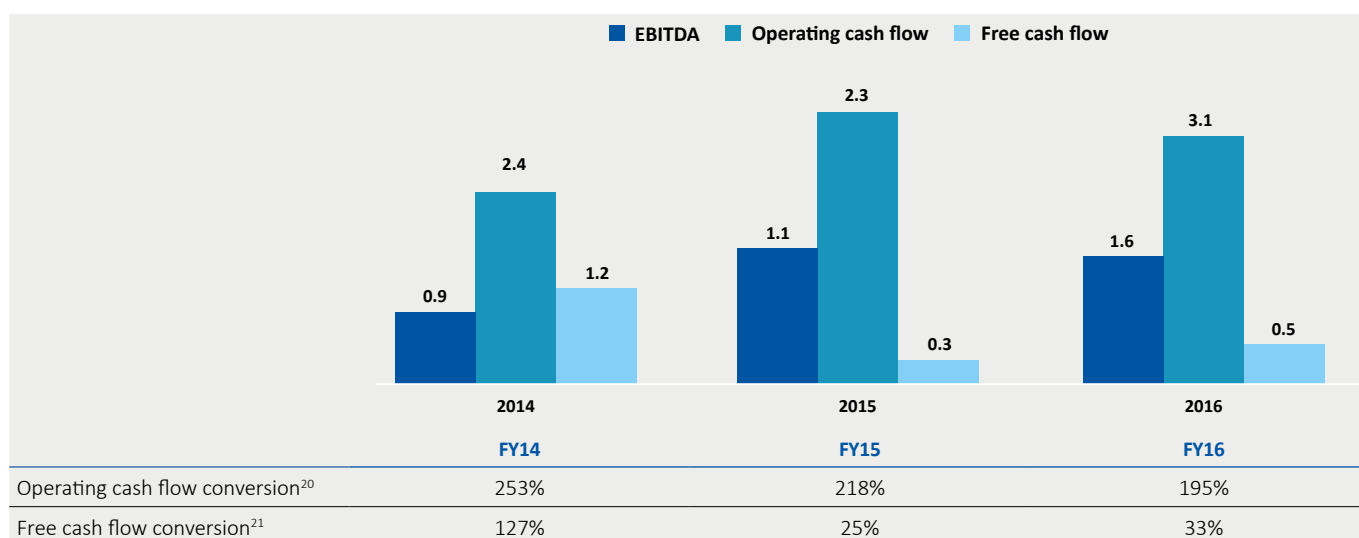


- **favourable payment terms:** ELMO operates its business under a SaaS-based revenue model whereby customers typically enter into three year contracts and pay annual license fees in advance. Annual license fees paid in advance allows ELMO to generate operating cash flows that are materially higher than Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**), as demonstrated in Figure 28 below. As a result of this attractive cash flow generation profile, the Company has been able to self-fund its growth strategy and new product development expenditure from its operations.

16. Customer retention is calculated by dividing the number of customers in the reference period who were customers at the end of the prior period by the number of customers at the end of the prior period.

17. Revenue dollar retention is calculated by dividing the referenced financial year revenue by the prior financial year revenue for customers who were customers at the end of the prior financial year.

FIGURE 28: ELMO'S PRO FORMA EBITDA, OPERATING CASH FLOW AND FREE CASH FLOW, \$MILLIONS<sup>18,19</sup>



### 3.6 Sales and marketing strategy

ELMO's ability to grow its customer base depends on the effectiveness of its sales and marketing strategy as well as the Company's brand and reputation. ELMO adopts a strategic approach to acquiring new customers and upselling additional modules to its existing customer base. ELMO allocates its sales and marketing budget across various channels as set out in Figure 29 below, in order to increase ELMO's brand and product awareness and generate new customer leads.

The Company's sales and marketing team of 38 individuals<sup>22</sup> adopts a marketing approach focused on HR leaders within organisations as the target buyer. The sales division is divided into two core teams, one focused on new customer acquisition and the other focused on expanding revenue generated from existing customers. Employees in the new customer acquisition team are responsible for developing a sales plan and pipeline of new customer targets that are ranked based on the size of the opportunity, probability of success and position in the sales cycle.

ELMO has developed an established brand and reputation within the HR industry for its talent management software solutions. ELMO believes that this reputation has assisted ELMO in generating a portion of ELMO's new customers through referrals from the Company's existing customer base thereby lowering customer acquisition costs.

In addition, customer leads are also generated via online marketing campaigns, ELMO-hosted events and participation in a range of industry events. During 2016, ELMO hosted 18 national events, known as Insights Exchange, where ELMO demonstrates its talent management software solutions and ELMO customers share their experiences with these solutions with an audience of industry professionals including existing and potential new customers. Additionally, ELMO also participated in 32 national industry events during 2016 such as the HRD HR Summit and the AHRI National Convention and Exhibition. These events help build further brand awareness around ELMO and its talent management software solutions and have historically contributed to new customer acquisitions.

18. Operating cash flow is defined as EBITDA after the removal of non-cash items in EBITDA such as bad debts and changes in working capital.

19. Free cash flows is defined as EBITDA after the removal of non-cash items in EBITDA such as bad debts and changes in working capital less capitalised software development and commission costs and other capital expenditure.

20. Operating cash flow conversion is defined as operating cash flow divided by EBITDA.

21. Free cash flow conversion is defined as free cash flow divided by EBITDA.

22. As at 28 February 2017.

## 3 Company overview

FIGURE 29: ELMO'S BRAND AWARENESS MARKETING STRATEGIES

### Events (2016)

- 32 national industry events
- 18 national ELMO events – Insights Exchange

### Webinars (2016)

- Registrations: 2,882

### ELMO website (2016)

- 221,424 sessions
- 165,384 users

### Social media – LinkedIn

- More than 5,000 followers, up ~153% in the last 12 months
- ~550,000 impressions per month
- More than >27,000 clicks, 900 shares and 300 comments per annum

### Google AdWords (2016)

- 145,725 clicks per annum

### 3.6.1 Leading industry body recognition

ELMO has established long term exclusive partnership agreements with the Australian Human Resources Institute (**AHRI**), the Human Resources Institute of New Zealand (**HRINZ**) and the Recruitment and Consulting Services Association, Australia and New Zealand (**RCSA**). ELMO's recognition by these leading HR industry bodies is evidenced by AHRI, HRINZ and RCSA being customers of ELMO. The Company's associations with these industry leading bodies has acted as a driver of referrals for new customers and helps to strengthen ELMO's brand as a leading HCM solutions provider in the ANZ region.

## 3.7 Customers

ELMO's talent management software solutions have been built for wide spread adoption and to address HCM requirements of multiple industries. ELMO currently delivers its platform to a broad and diverse customer base which includes government departments, agencies and authorities at the Federal, State and Local level as well as large and mid-market corporations operating across 13<sup>23</sup> different industries, as illustrated in Figure 30 below.

FIGURE 30: EXAMPLE OF ELMO'S CUSTOMER BASE AND INDUSTRY REVENUE COMPOSITION

					% of FY16 statutory SaaS revenue
<b>Government</b>	Australian Taxation Office	Family & Community Services – Ageing, Disability & Home Care	Government of Western Australia – Department of Education	Victoria State Government – Department of Education and Early Childhood Development	~26%
<b>Education</b>	Macquarie University	Murdoch University	Queensland University of Technology	RMIT University	~15%
<b>Construction and mining</b>	Austral Bricks	BMD Construction	Fulton Hogan	ILUKA	~13%
<b>Professional services</b>	Cbus	Grant Thornton	HLB Mann Judd	Propell National Valuers	~6%
<b>Healthcare and pharmaceuticals</b>	Healthscope	I-MED Network Radiology	Merck Sharp & Dohme	Sonic Healthcare	~6%
<b>Other<sup>24</sup></b>	Assetlink Bank of China Beef + Lamb NZ Fujitsu Fusion Retail Brands Hawker Pacific IBM Kmart Lite 'n' Easy MSS Security Pacific Brands Staples Toshiba Villa Maria				~35%

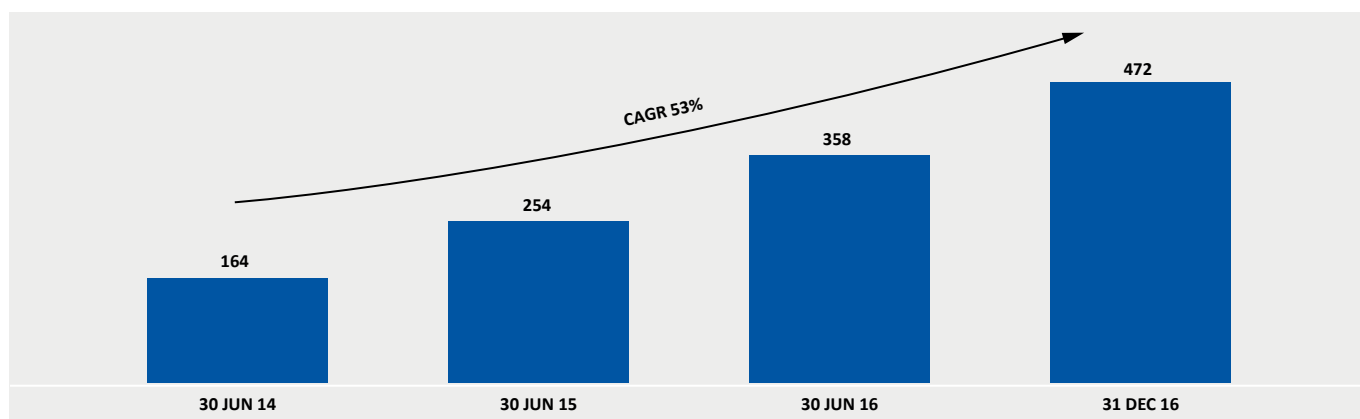
Note: The above list of ELMO's customer base is not exhaustive and represents a selected group.

23. See Section 3.5.2.

24. Includes finance, IT, telecommunications and media, industrials, hospitality, property, retail, transport and not for profit industries.

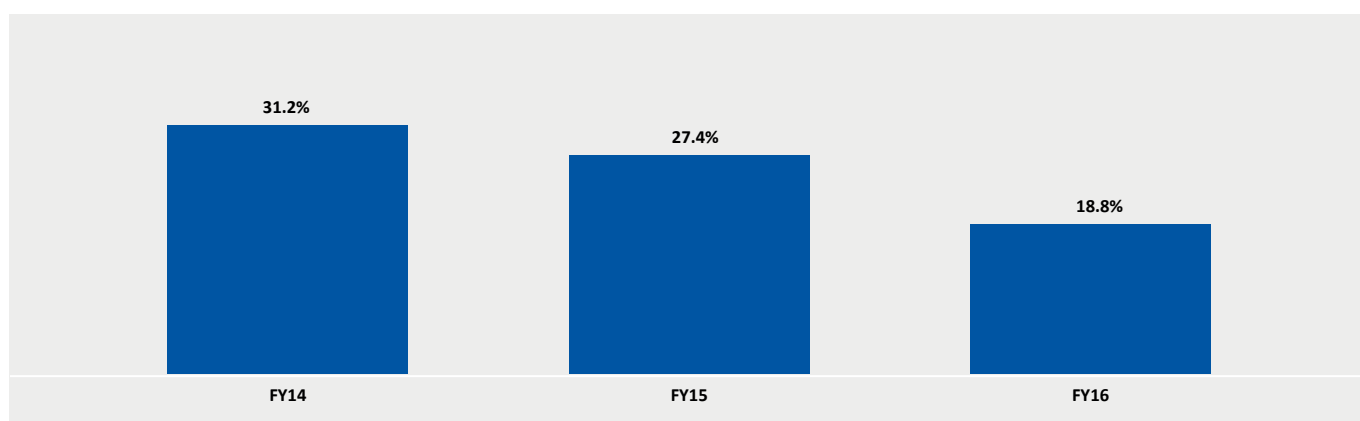
ELMO's customer base has grown at an approximate 53% CAGR from 164 organisations as at 30 June 2014 to 472 organisations as at 31 December 2016, as shown in Figure 31 below.

FIGURE 31: ELMO'S CUSTOMER BASE GROWTH



ELMO's largest customer represents less than 4% of pro forma revenue in FY16 and the top 10 customers account for less than 19% of pro forma revenue in FY16 which has progressively decreased from 31% in FY14, as shown below in Figure 32.

FIGURE 32: ELMO'S TOP 10 CUSTOMERS AS A PERCENTAGE OF STATUTORY SAAS REVENUE



ELMO's top 10 customers by revenue for FY16 is shown in Figure 33 below, which together have on average an approximate 5 year relationship with the Company.

FIGURE 33: ELMO'S TOP 10 CUSTOMERS BY STATUTORY REVENUE FOR FY16

Customer ranked by FY16 statutory revenue	Industry	Relationship since
Customer 1	Education	2008
Customer 2	Government	2010
Customer 3	Government	2015
Customer 4	Government	2014
Customer 5	Industrial	2011
Customer 6	Government	2008
Customer 7	Construction	2013
Customer 8	Construction	2008
Customer 9	Education	2012
Customer 10	Industrial	2014
Average tenure of relationship of approximately 5 years		



### 3 Company overview

ELMO's customer base currently subscribe to, on average, approximately 2.3 of ELMO's seven talent management solution modules available on the platform. Therefore, the existing customer base presents significant value-add potential via cross-selling and upselling opportunities to increase the average revenue per customer. ELMO has seen the average number of modules per customer grow from approximately 1.5 modules per customer as at 30 June 2014 to approximately 2.3 modules per customer as at 31 December 2016, as shown in Figure 34 below.<sup>25</sup> The average modules per customer is expected to grow as ELMO expands its solutions platform with the launch of new modules and continues to actively engage in its sales and marketing campaigns.

FIGURE 34: AVERAGE NUMBER OF MODULES PER CUSTOMER

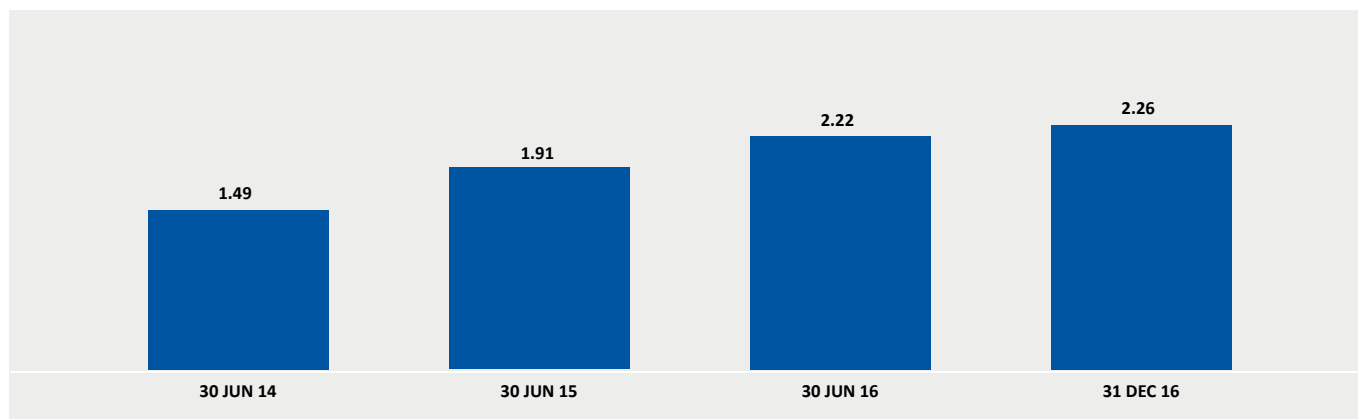


Figure 35 below presents a summary of a selected group of ELMO's recent contract wins which include organisations within the finance, healthcare and pharmaceuticals, industrials and government industries. These customers have entered into contracts with terms of three years and have initial subscriptions to an average of five modules.

FIGURE 35: ELMO'S RECENT CONTRACT WINS<sup>26</sup>

Customer	Contract term	Number of employees	Modules purchased	Industry
Bank Australia	3 years	400	Course Library Learning Onboarding Performance Recruitment Succession	Finance
Daikin	3 years	500	Course Library Learning Onboarding Performance Recruitment	Industrials
Government of South Australia	3 years	1,500	Course Library Learning Performance	Government
Silver Chef	3 years	340	Course Library Learning Onboarding Performance Recruitment	Finance
TUH health Fund	3 years	200	Course Library Learning Onboarding Performance Recruitment Succession	Healthcare and pharmaceuticals

Note: The above list of ELMO's recent contract wins is not exhaustive and represents a selected group of new customers.

25. ELMO's average module per customer does not include customers acquired from the acquisition of Techni Works Pty Ltd in October 2016.

26. Excludes acquisition of Techni Works Pty Ltd in October 2016.

### 3.8 Business strategy and growth opportunities

An overview of ELMO's business strategy and growth opportunities is provided below.

#### 3.8.1 Greater usage from existing customers

ELMO aims to increase usage of its solutions amongst the Company's existing customer base and undertake cross-selling and upselling of additional modules to customers who are not yet subscribed to the full suite of ELMO's modules. Currently, ELMO offers customers seven talent management modules of which, on average, customers are subscribed to 2.3<sup>27</sup> modules. ELMO plans to support this growth strategy by undertaking further investment in its sales and marketing team and broadening its talent management software solutions offering in order to improve the inherent value of the platform to the existing customer base.

#### 3.8.2 Increasing market penetration in Australia and New Zealand

According to Frost & Sullivan, ELMO currently has an approximate 4%<sup>28,29</sup> market share of the addressable market in Australia and New Zealand. ELMO plans to accelerate its market penetration in ANZ by increasing investment into its sales and marketing capabilities and initiatives to drive lead generation and new customer wins. Additionally, ELMO aims to further develop and establish partnerships with industry bodies to promote the Company's brand and reputation which ELMO anticipates will encourage inbound customer referrals.

#### 3.8.3 Expand product offering

ELMO adopts a continuous improvement approach to its SaaS, cloud-based offering by continuously investing in research and development to expand its product offering with new additional modules as well as to enhance the functionality of its existing platform. As ELMO releases new products and platform enhancements, the Company expands its opportunities to further entrench the existing customer base through cross-sell and upsell initiatives and support new customer acquisition. The SaaS, cloud-based infrastructure of ELMO's platform is highly conducive to these opportunities and allows for new product modules to be easily sold and implemented with both new and existing customers.

The product development process is driven by collating feedback and product enhancement suggestions from a wide range of sources including ELMO's broad customer base and employees.

ELMO has recently launched a module for HR administration functions (HR Core) to expand its market opportunity and address both categories of the HCM industry. Additional modules in ELMO's development pipeline includes Rewards and Recognition, Time and Attendance, Remuneration and Workforce Planning. ELMO aims to launch four new modules in the next two to three years.

#### 3.8.4 Acquisitions

The HCM industry is a highly fragmented market with many small vendors of HCM solutions. As a result of being in operation since 2002, ELMO has increasingly become familiar with the various providers of HCM solutions across the ANZ market and believes that there is an opportunity to gain additional market share through targeted acquisitions of smaller HR technology companies who provide single HCM point solutions within the industry. Similar to ELMO's recent acquisition of Techni Works, incorporating complementary HR technology businesses into ELMO's business provides opportunity to leverage operational efficiencies through ELMO's existing infrastructure and explore potential upsell and cross-sell opportunities.

##### 3.8.4.1 Case study: Acquisition of Techni Works

###### *Acquisition summary*

In October 2016, ELMO completed the acquisition of Techni Works for a total maximum consideration of \$2.6 million, inclusive of conditional earnout payments.

###### *Techni Works*

Techni Works is an Australian-based online learning solutions company specialising in the provision of off-the-shelf and custom-built eLearning courses developed specifically for the Australian work environment. Since being established in 1999, Techni Works had developed an eLearning course content library and grown to a customer base of 83 organisations which operate across all levels of government (Commonwealth, State and Local) and tertiary educational institutions.

###### *Rationale*

The strategic rationale underpinning the acquisition of Techni Works included:

- EBITDA margin expansion from synergy cost savings as a result of reduction in operational costs;
- low integration risk and ability to extract significant operational efficiencies from leveraging ELMO's existing infrastructure;
- increasing market share with an enlarged customer base of 82<sup>30</sup> additional customers. This allows ELMO account managers to leverage existing customer relationships to establish new contracts from upselling and cross-selling of ELMO's full suite of talent management software solutions; and
- expanding ELMO's learning module platform with the addition of Techni Works' 46<sup>31</sup> eLearning courses.

27. Based on latest available data as at 31 December 2016.

28. As at 31 December 2016.

29. Frost & Sullivan, Independent Market Report: Human Resource Management Software Market, March 2017.

30. One Techni Works customers are existing customers of ELMO.

31. 46 additional courses is net of overlapping courses between Techni Works and ELMO.

# 3 Company overview

## 3.8.5 Geographic expansion

ELMO’s platform has been built and designed on a globally scalable infrastructure and has a multi-lingual and multi-jurisdictional compatible eLearning course library. Although there is significant opportunity to grow within Australia, ELMO also believes there is currently an attractive market opportunity for HCM solutions in New Zealand. ELMO also aims to eventually build its presence outside of the Australian and New Zealand markets to leverage the Company’s technology capability and capital light expansion model. ELMO sees a strong case to eventually expand to markets such as the U.S.A. and the U.K. where ELMO sees a large addressable market opportunity for SaaS, cloud-based HCM solutions, particularly for mid-market organisations.

### CASE STUDY: NEW ZEALAND EXPANSION

ELMO began operations in New Zealand during November 2014 with an initial customer base of five organisations and revenues of approximately \$35,000 in FY15. Since then, ELMO’s New Zealand operations have expanded to a customer base of 22<sup>32</sup> organisations across the government, finance, retail, agricultural, utilities and professional services industries which contribute revenues of approximately \$614,000<sup>33</sup> based on annualised first half 2017 financial year, as shown in Figure 36 and Figure 37 below.

FIGURE 36: NEW ZEALAND CUSTOMER BASE GROWTH

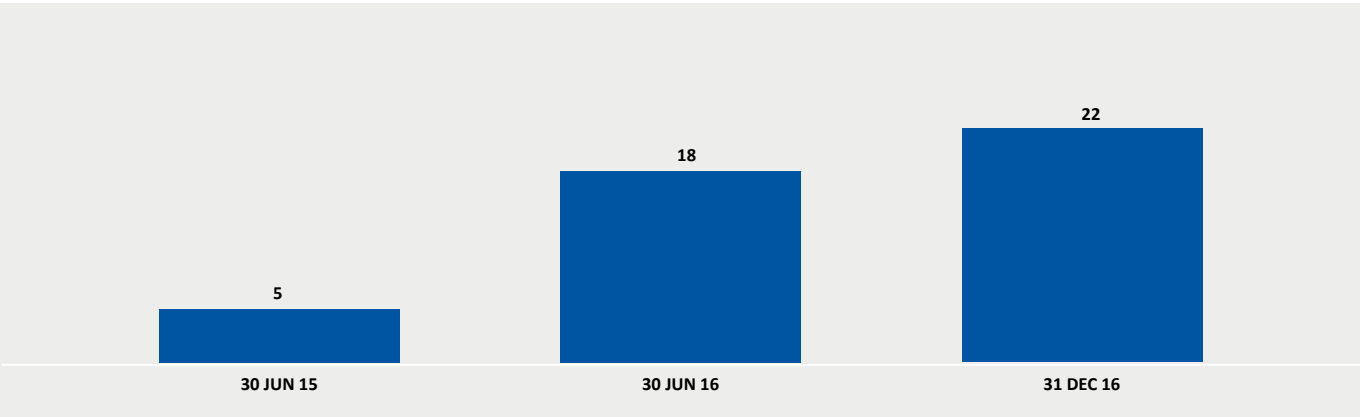
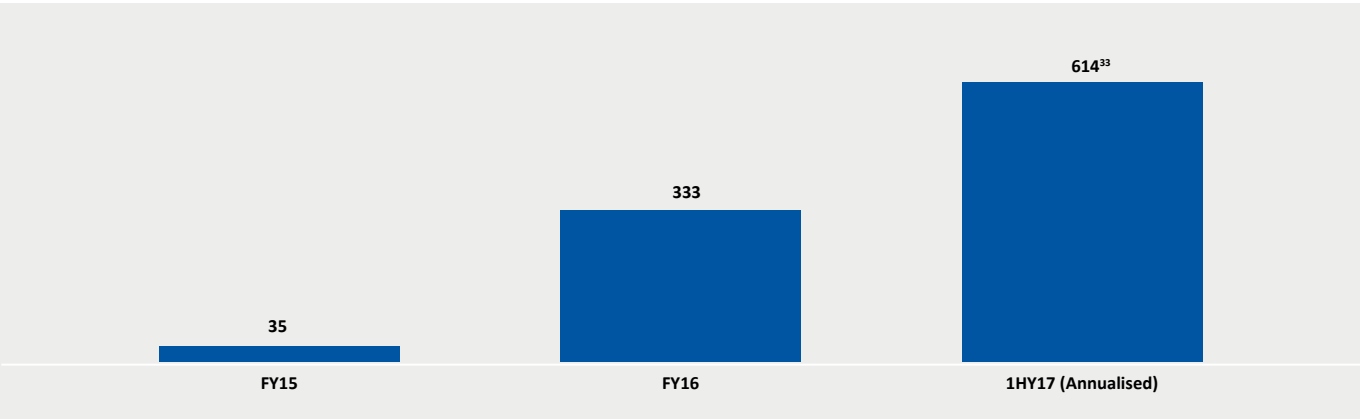


FIGURE 37: NEW ZEALAND REVENUE GROWTH, (\$000’S)



32. As at 31 December 2016.  
33. First half 2017 financial year revenue of approximately \$307,000 annualised.

### 3.9 Further information on ELMO's business

#### 3.9.1 Employees

As at 28 February 2017, ELMO employed 92 full-time employees across four offices in Australia and New Zealand. Figure 38 and Figure 39 below provides a breakdown of ELMO's employees by function as at 28 February 2017, and the increase in employees since 30 June 2011, respectively.

FIGURE 38: ELMO'S EMPLOYEES BY FUNCTION

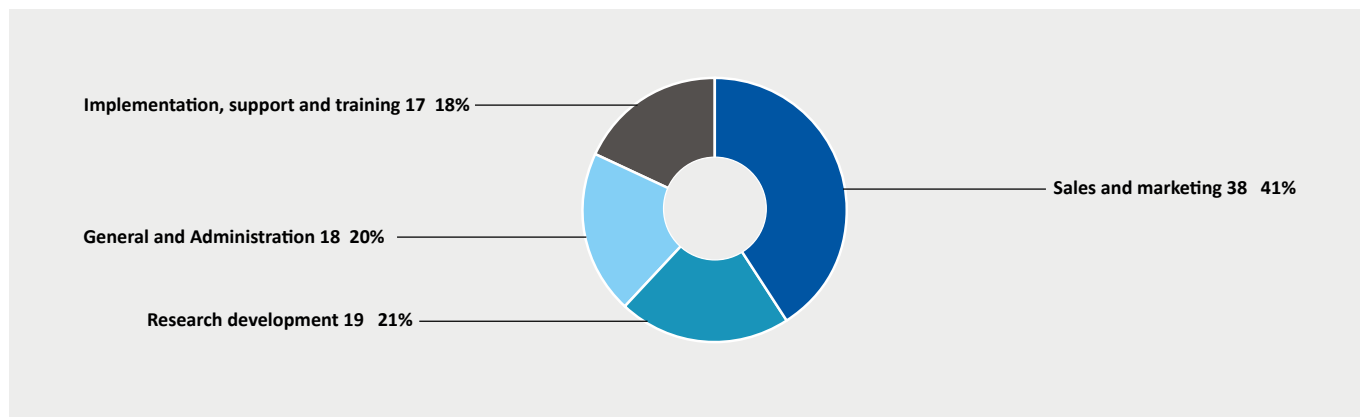
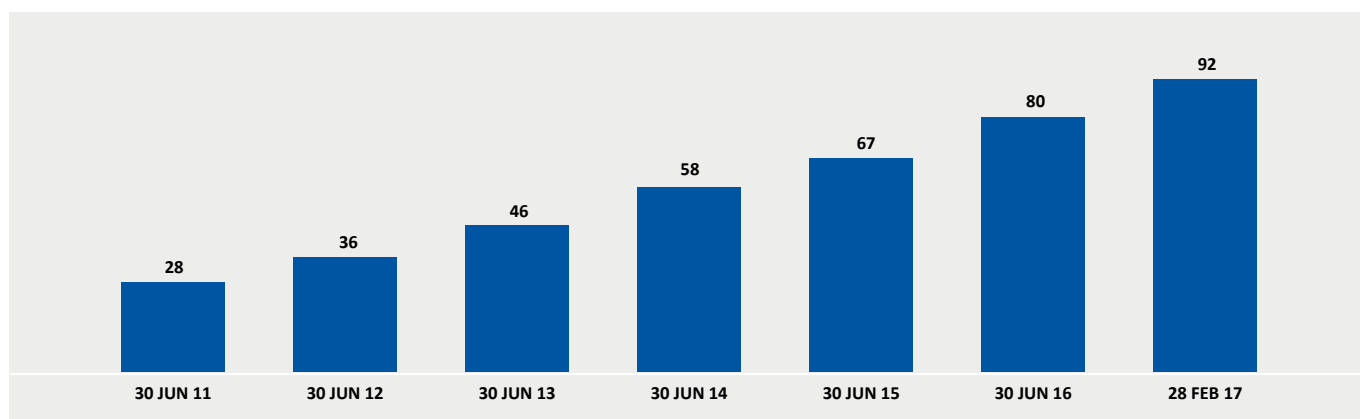


FIGURE 39: ELMO'S EMPLOYEE GROWTH



#### 3.9.2 IT infrastructure

ELMO's talent management system is hosted by Amazon Web Services (**AWS**). All data for ELMO's Australian customer base is stored and hosted in data centres located in Australia.

ELMO uses the following range of methods to ensure consistent delivery of its cloud products:

- daily back-ups of the Company's full database with 14 days of hot backups for immediate recovery;
- all data is encrypted and secured;
- data is regularly replicated to separate data centre facilities for disaster recovery;
- back up databases have been designed to activate if the primary database fails;
- continuous monitoring of system status, with alerts which are sent via SMS and email to the ELMO operations team in the event of system failures; and
- established formal support arrangements with, and system monitoring and management by, technology providers specialising in AWS.

#### 3.9.3 Multi-tenant infrastructure with single source code

ELMO's platform has been built on a scalable multi-tenant infrastructure network, allowing ELMO's talent management software solutions to scale up together with customers as they expand their businesses with increased headcount.<sup>34</sup> ELMO has engaged with third party technology consultants that have tested and demonstrated the platform's ability to handle significant capacity. ELMO's platform also operates under a single source code system, which allows for faster release of software updates, enabling all users to access the latest enhanced functionalities of the platform.

34. Multi-tenant infrastructure network is defined as an architecture in which a single instance of a software application serves multiple users.

## 3 Company overview

### 3.9.4 Risk management procedure

ELMO's key technology risk mitigation methodology includes:

- **risk infrastructure management:** The CTO is responsible for ensuring compliance with policies and procedures, recommending risk mitigation strategies and operational oversight of risk practices. In addition, the CTO initiates and coordinates ongoing risk assessment, evaluates all new risks, and manages responses to issues when they occur; and
- **monitoring and testing:** ELMO maintains continuous monitoring and activity logging on its primary platform. ELMO also subscribes to third party vendors to keep abreast of relevant threats, vulnerabilities or actual incidents.

### 3.9.5 Data protection and cyber security

IT security and data protection are critical to building and maintaining ELMO's SaaS cloud-based solution. ELMO employs a rigorous approach to security management. As at the Prospectus Date, ELMO has never experienced a security breach of its talent management software solutions.

Processes that are used by ELMO to enhance data protection and cyber security includes:

- **external testing:** regular testing is conducted by external vendors;
- **secure development:** ELMO's development team receive regular training in security aware coding techniques based on industry best practice;
- **security training:** ELMO mandates regular training for all staff on security processes, appropriate business controls, and correct use of information systems and facilities;
- **anti-virus and patching:** anti-virus updates are installed automatically on all staff computers as soon as they are made available and all operating system patches are reviewed by IT staff prior to installation;
- **firewalls and monitoring:** ELMO uses intrusion detection and prevention systems to protect its cloud-based platform. Firewalls are used across all systems, and firewall rules are continually updated and independently audited where required. All logs are centralised, reviewed and monitored by system administrators for suspicious behaviour; and
- **leading platform vendors:** ELMO partners with leading platform vendors who provide services such as denial of service monitoring, physical security, server and power redundancy and built-in firewalls to support cloud-based systems.

### 3.9.6 Intellectual property

ELMO's key intellectual property includes the source code of products developed by the Company and the processes and technology involved in delivering those products to market. ELMO has the following procedures in place which are designed to protect its intellectual property:

- **copyright:** ELMO asserts copyright on software created by ELMO employees;
- **terms and conditions of employment:** ELMO requires its permanent, fixed term and casual employees to sign contracts that contain appropriate provisions relating to the non-use and non-disclosure of confidential information and the granting and affirming of ownership rights in intellectual property used and created by such employees while at ELMO;
- **contractors and consultants:** ELMO requires contractors and consultants to sign standard agreements that contain provisions relating to the non-use and non-disclosure of confidential information and the acknowledgement of ownership of intellectual property by ELMO; and
- **trademarks:** ELMO has sought to protect its name and its logo by employing external counsel to register its name and logo as registered trademarks. Extra protection is also provided by external counsel conducting regular monitoring of ELMO's trademarks and applications to identify any third parties applying to register trademarks which are identical or substantially identical to ELMO's name or logo.



A man with glasses and a woman with curly hair are looking at a tablet together. The man is holding the tablet and pointing at the screen, while the woman is smiling and looking at the screen. They are both wearing light-colored shirts. The background is bright and out of focus, suggesting an office or indoor setting with large windows.

# 4

## FINANCIAL INFORMATION

# 4 Financial information

## 4.1 Introduction

Financial information for ELMO contained in this Section 4 is set out below for the historical financial years ended 30 June 2014 (FY14), 30 June 2015 (FY15) and 30 June 2016 (FY16) as well as for the half-years ended 31 December 2015 (1H16) and 31 December 2016 (1H17) together with the forecast financial years ending 30 June 2017 (FY17) and 30 June 2018 (FY18).

This Section 4 contains a summary of the statutory historical financial information, pro forma historical financial information and forecast financial information of ELMO as defined below.

The statutory historical financial information comprising:

- Statutory historical consolidated statements of profit or loss and other comprehensive income for FY14, FY15, FY16, 1H16 and 1H17 (**Statutory Historical Income Statements**);
  - Statutory historical consolidated cash flows for FY14, FY15 and FY16 (**Statutory Historical Cash Flows**); and
  - Statutory historical consolidated statement of financial position as at 31 December 2016 (**Statutory Historical Balance Sheet**),
- (the “**Statutory Historical Financial Information**”).

The pro forma historical financial information comprising:

- Pro forma historical consolidated statements of profit or loss and other comprehensive income for FY14, FY15, FY16, 1H16 and 1H17 (**Pro forma Historical Income Statements**);
  - Pro forma historical consolidated cash flows for FY14, FY15 and FY16 (**Pro forma Historical Cash Flows**); and
  - Pro forma historical consolidated statement of financial position as at 31 December 2016 (**Pro forma Historical Balance Sheet**),
- (the “**Pro forma Historical Financial Information**”).

The forecast financial information comprising:

- Statutory forecast consolidated statements of profit or loss and other comprehensive income (**Statutory Forecast Income Statements**), and the Statutory forecast consolidated cash flows (**Statutory Forecast Cash Flows**) for FY17 and FY18 (together, the **Statutory Forecast Financial Information**); and
  - Pro forma forecast consolidated statements of profit or loss and other comprehensive income (**Pro forma Forecast Income Statements**), and the Pro forma forecast consolidated cash flows (**Pro forma Forecast Cash Flows**) for FY17 and FY18 (together, the **Pro forma Forecast Financial Information**),
- (the “**Forecast Financial Information**”).

The Statutory Historical Financial Information and the Pro forma Historical Financial Information together with the Forecast Financial Information forms the “**Financial Information**”.

The Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Fundraising and/or Prospective Financial Information, by Deloitte Corporate Finance Pty Limited (the **Investigating Accountant**) whose Investigating Accountant’s Report is contained in Section 8. Investors should note the scope and limitations of the report. Also summarised in this Section are:

- the basis of preparation and presentation of the Financial Information (Section 4.2);
- key financial and operating metrics (Section 4.4);
- commentary on the liquidity of, and the sources of capital available to the Company (Section 4.10);
- Management’s discussion and analysis of the Pro forma Historical Income Statements and Pro forma Historical Cash Flows (Section 4.12);
- the Directors’ best estimate assumptions underlying the Forecast Financial Information (Sections 4.13.1 and 4.13.2);
- Management’s discussion and analysis of the Historical Financial Information (4.12.2, 4.12.3 and 4.12.4) and Forecast Financial Information (Sections 4.13.3 and 4.13.4); and
- analysis of the sensitivity of FY17 and FY18 pro forma forecast consolidated EBITDA to changes in key assumptions (Section 4.14).

The information in this Section 4 should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

All amounts disclosed in the tables are presented in Australian dollars and unless otherwise noted, are rounded to the nearest \$1,000. Rounding of figures provided in the Financial Information may result in some immaterial differences between the sum of components and the totals outlined within tables and percentage calculation.

## 4.2 Basis of preparation and presentation of the Financial Information

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the underlying historical financial performance, cash flows and financial position of ELMO, together with its forecast financial performance and cash flows. The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the Australian Accounting Standards, which are consistent with the International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board. The Financial Information is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The significant accounting policies adopted in the preparation of the Financial Information are set out in Section 10 and have been consistently applied throughout the financial periods presented in this Prospectus.

The Company has one reporting segment under AASB 8 Operating Segments, being the provision of SaaS, cloud-based talent management software solutions for organisations.

#### **4.2.1 Preparation of the Statutory and Pro forma Historical Financial Information**

The Statutory Historical Financial Information has been extracted from the consolidated general purpose financial statements of ELMO Software Limited for FY14, FY15 and FY16 and the half-year financial statements for 1H16 and 1H17.

The financial statements for ELMO Software Limited for FY14, FY15, FY16 and the half-year financial report for 1H17 were audited by Deloitte Touche Tohmatsu in accordance with Australian Auditing Standards who issued an unqualified audit opinion.

The Pro forma Historical Financial Information has been prepared for the purpose of this Prospectus and has been derived from the Statutory Historical Financial Information to illustrate the net income, assets, liabilities and cash flows of the consolidated group adjusted for certain pro forma amounts.

The Pro forma Historical Financial Information has been presented on a comparable basis to the Forecast Financial Information and has been adjusted to reflect the impact of:

- incremental costs of being a publicly listed entity including costs associated with the SEEP and HPEP management incentive plans;
- the acquisition of Techni Works as if acquired on 1 July 2013;
- the closure of the RTO division as if it ceased trading prior to 1 July 2013;
- the impact of the Offer including capital raised and offer costs, and the capital structure in place following the IPO;
- amortisation adjustment as if the Company had the same capitalisation policy for development costs and sales commissions from the start of FY11;
- eliminating or including certain items inconsistent with the future operating structure of the Company; and
- the income tax effect of the above pro forma adjustments and to record historical tax expense as if the post-Offer structure were in place from 1 July 2013.

#### **4.2.2 Acquisition of Techni Works Pty Ltd**

In October 2016 ELMO acquired 100% of the shares in Techni Works Pty Ltd (**Techni Works**) a company which specialised in the provision of eLearning solutions. As part of its due diligence investigations ELMO required the accounts of Techni Works for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016 to be audited by a registered Audit firm.

The financial results of Techni Works for the period prior to October 2016 have been included in the Pro forma Historical Income Statements and Pro forma Historical Cash Flows of ELMO for FY14, FY15, FY16, 1H16 and 1H17 based on the audited financial statements for those years/periods, adjusted to reflect the operating structure subsequent to the acquisition by ELMO.

The purchase price allocation that was undertaken by ELMO and which was reviewed by Deloitte Touche Tohmatsu, determined \$0.4 million of finite life intangible assets (including customer relationships), a \$0.5 million of deferred revenue liability, \$2.1 million of goodwill and other assets and liabilities totalling less than \$100,000. The finite life intangible assets are being amortised over a period of seven years. These amounts are reflected in the statutory balance sheet as at 31 December 2016 as shown in Section 4.9

#### **4.2.3 Preparation of Forecast Financial Information**

The Forecast Financial Information has been prepared by ELMO based on an assessment of present economic and operating conditions and on a number of assumptions, including the general assumptions and the Directors' best estimate specific assumptions set out in Section 4.13.

The Directors have prepared the Forecast Financial Information with due care and attention, and consider all best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned to not place undue reliance on the Forecast Financial Information.

This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on ELMO's actual financial performance or financial position. Investors are advised to review the assumptions set out in Section 4.13 in conjunction with the sensitivity analysis set out in Section 4.14, the risk factors set out in Section 5 and other information set out in this Prospectus.

The Pro forma Forecast Income Statement and the Pro forma Forecast Cash Flows for ELMO have been derived from the Statutory Forecast Income Statements and the Statutory Forecast Cash Flow statements after adjusting for pro forma adjustments to reflect the Group's operations following Completion of the Offer as set out in Sections 4.5 and 4.7.

The Pro forma Forecast Income Statements, which are set out in Section 4.3, differ from the Statutory Forecast Income Statements because the Pro forma Forecast Income Statements reflect the full year effect of the operating and equity structure that will be in place on Completion of the Offer, but exclude costs directly attributable to the Offer and other non-operating items. Refer to Section 4.5 for reconciliations between the Statutory and Pro forma Forecast Income Statements.

## 4 Financial information

The Directors have no intention to update or revise the Forecast Financial Information or other forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

### 4.2.4 Non-IFRS financial measures

ELMO uses certain measures to manage and report on its business that are neither recognised under Australian Accounting Standards (AAS), nor under International Financial Reporting Standards (IFRS). These measures are collectively referred to as non-IFRS financial measures. These non-IFRS financial measures do not have a prescribed definition under AAS or IFRS and therefore may not be directly comparable to similarly titled measures presented by other entities. These should not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS. Although ELMO believes these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of the business, investors are cautioned not to place undue reliance on any non-IFRS financial measures included in the Prospectus.

In the disclosures in this Prospectus, ELMO uses the following non-IFRS financial measures:

- **SaaS revenue:** is revenue generated from collecting contracted recurring annual licence fees from customers based on a contracted fee per user per module within the talent management software solutions suite. SaaS revenue includes Techni Works revenue unless otherwise noted;
- **Other income:** professional fees in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants;
- **Cost of sales:** comprises the wages and salaries of employees who undertake software implementation work as well as the costs associated with web hosting services. Cost of sales does not include other indirect costs nor does it include an allocation of overheads;
- **Gross profit:** total revenue less cost of sales;
- **Gross margin:** gross profit divided by revenue expressed as a percentage;
- **EBITDA:** earnings before interest, tax, depreciation and amortisation. Management uses EBITDA to evaluate the operating performance of the business. EBITDA can be useful to help understand the cash generation potential of the business. EBITDA should not be considered as an alternative to measures of cash flow under IFRS and investors should not consider EBITDA in isolation from, or as a substitute for, an analysis of the results of ELMO's operations;
- **EBITDA margin:** EBITDA expressed as a percentage of total revenue;
- **EBIT:** earnings before interest and tax;
- **Capitalised development and sales commissions:** includes a proportion of the wages and salaries of employees whose activities relate to the development of software and also sales commissions in securing new customer contracts with a term greater than one year;
- **Capital expenditure:** includes investment in property, plant and equipment including leasehold improvements and IT equipment;
- **Working capital:** trade and other receivables, other current assets, less trade and other payables and income received in advance;
- **Operating cash flow:** EBITDA after the removal of non-cash items in EBITDA such as bad debts and changes in working capital;
- **Operating cash flow conversion:** operating cashflow expressed as a percentage of EBITDA;
- **Free cash flow:** operating cash flow less capitalised software development and commission costs and other capital expenditure; and
- **Free cash flow conversion:** Free cash flow as a percentage of EBITDA.

### 4.3 Pro forma Historical Income Statements, Pro forma Forecast Income Statements and Statutory Forecast Income Statements

Set out below in Figure 40 is a summary of ELMO's Pro forma Historical Income Statements for FY14, FY15, FY16, the Pro forma Forecast Income Statements for FY17, FY18 and the Statutory Forecast Income Statements for FY17 and FY18.

FIGURE 40: SUMMARY OF PRO FORMA HISTORICAL INCOME STATEMENTS, PRO FORMA FORECAST INCOME STATEMENTS AND STATUTORY FORECAST INCOME STATEMENT

A\$('000)		Pro forma Historical <sup>1</sup>			Pro forma Forecast <sup>2</sup>	Pro forma and Statutory Forecast	Statutory Forecast
June year end	Notes	FY14	FY15	FY16	FY17	FY18	FY17
SaaS revenue	3	7,111	8,968	12,588	15,706	21,548	15,422
Other income	4	207	965	901	652	853	642
<b>Total revenue</b>		<b>7,317</b>	<b>9,933</b>	<b>13,488</b>	<b>16,358</b>	<b>22,402</b>	<b>16,064</b>
Cost of sales	5	(624)	(869)	(1,242)	(1,593)	(1,883)	(1,684)
<b>Gross profit</b>		<b>6,693</b>	<b>9,064</b>	<b>12,247</b>	<b>14,764</b>	<b>20,518</b>	<b>14,379</b>
Sales and marketing		(1,659)	(2,599)	(4,435)	(6,462)	(8,620)	(6,498)
Research and development	6	(434)	(451)	(437)	(435)	(565)	(435)
General and administration		(3,663)	(4,955)	(5,808)	(7,007)	(8,649)	(7,538)
<b>Total operating expenses</b>		<b>(5,756)</b>	<b>(8,006)</b>	<b>(10,680)</b>	<b>(13,904)</b>	<b>(17,835)</b>	<b>(14,470)</b>
<b>EBITDA</b>	7	<b>938</b>	<b>1,058</b>	<b>1,567</b>	<b>860</b>	<b>2,684</b>	<b>(91)</b>
Depreciation		(84)	(91)	(92)	(236)	(155)	(236)
Amortisation		(791)	(1,100)	(1,576)	(2,124)	(2,631)	(2,109)
<b>EBIT</b>	7	<b>62</b>	<b>(133)</b>	<b>(101)</b>	<b>(1,499)</b>	<b>(102)</b>	<b>(2,436)</b>
Net finance income	8	342	354	373	364	421	41
<b>Profit before taxation</b>		<b>404</b>	<b>221</b>	<b>272</b>	<b>(1,135)</b>	<b>319</b>	<b>(2,395)</b>
Income tax (expense)/ benefit	9	(121)	(66)	(82)	340	(96)	944
<b>Pro forma NPAT</b>		<b>283</b>	<b>155</b>	<b>191</b>	<b>(794)</b>	<b>223</b>	<b>(1,451)</b>

Notes:

1. The Pro forma Historical Income Statements are reconciled to the Statutory Historical Income Statements in Section 4.5.
2. The Pro forma Forecast Income Statements are reconciled to the Statutory Forecast Income Statements in Section 4.5.
3. SaaS revenue includes Techni Works revenue.
4. Other income is professional fees in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants.
5. Cost of sales comprises the wages and salaries of employees who undertake software implementation work as well as the costs associated with web hosting services. Cost of sales does not include other indirect costs nor does it include an allocation of overheads.
6. Research and development expenses relate primarily to research activity and is the portion of wages and salaries of software developers that is expensed.
7. Refer to Section 4.2.4 for definitions of EBIT and EBITDA.
8. Net finance income includes a pro forma adjustment outlined in Figure 44. The adjustment is based on the assumption that the Offer was completed on 30 June 2013 and overlays the net funds raised by the Company following completion of the Offer with the pro forma operating cash flows generated in each year.
9. Income tax expense included in the Pro forma Historical Financial Information has been adjusted to reflect the assumption of an effective corporate tax rate of 30% applied to the pro forma profit before tax. The FY17 Statutory Forecast income tax benefit includes a credit relating to the expected receipt of an R&D Tax Incentive claim.



## 4 Financial information

Set out in Figure 41 is a summary of the Pro forma Historical Income Statements for 1H16 and 1H17.

FIGURE 41: SUMMARY OF PRO FORMA HISTORICAL INCOME STATEMENTS FOR 1H16 AND 1H17

A\$('000) Half-year ended 31 December	Notes	Pro forma Historical <sup>1</sup>	
		1H16	1H17
SaaS revenue	3	6,177	7,471
Other income	4	160	279
<b>Total revenue</b>		<b>6,337</b>	<b>7,750</b>
Cost of sales	5	(581)	(814)
<b>Gross Profit</b>		<b>5,756</b>	<b>6,936</b>
Sales and marketing		(1,731)	(3,089)
Research and development	6	(135)	(63)
General and administration		(3,025)	(3,315)
<b>Total operating expenses</b>		<b>(4,892)</b>	<b>(6,466)</b>
<b>EBITDA</b>	7	<b>864</b>	<b>470</b>
Depreciation		(96)	(161)
Amortisation		(666)	(958)
<b>EBIT</b>	7	<b>102</b>	<b>(650)</b>
Net finance income	8	179	175
<b>Profit before taxation</b>		<b>282</b>	<b>(475)</b>
Income tax (expense)/ benefit	9	(84)	142
<b>Pro forma NPAT</b>		<b>197</b>	<b>(332)</b>

Refer to Figure 40 for the notes relating to this figure.

#### 4.4 Key financial and operating metrics

Figure 42 is a summary of ELMO's key pro forma historical financial and operating metrics for FY14, FY15, FY16 and the key pro forma forecast financial and operating metrics for FY17 and FY18.

FIGURE 42: SUMMARY OF KEY PRO FORMA FULL YEAR HISTORICAL AND FORECAST FINANCIAL AND OPERATING METRICS

		Pro forma Historical			Pro forma Forecast	
June year end	Notes	FY14	FY15	FY16	FY17	FY18
Financial metrics¹						
Pro forma cash receipts ('\$000)	2	9,476	11,962	15,704	19,035	25,725
Pro forma cash receipts as a % of pro forma revenue	2	129.5%	120.4%	116.4%	116.4%	114.8%
Pro forma revenue growth (%)		n.a.	35.7%	35.8%	21.3%	36.9%
SaaS revenue growth (ex. Techni Works) (%)		n.a.	36.8%	50.1%	30.8%	39.5%
Recurring revenue (%)	3	97.2%	90.3%	93.3%	96.0%	96.2%
Revenue run rate (%)	4	n.a.	n.a.	n.a.	96.8%	83.1%
Pro forma gross margin (%)		91.5%	91.2%	90.8%	90.3%	91.6%
Pro forma EBITDA margin (%)		12.8%	10.7%	11.6%	5.3%	12.0%
Sales & marketing spend % of revenue		22.7%	26.2%	32.9%	39.5%	38.5%
General & administration spend % of revenue		50.1%	49.9%	43.1%	42.8%	38.6%
R&D spend % of revenue	5	18.0%	19.9%	15.6%	15.2%	17.2%
Operational metrics						
Number of customers (ex. Techni Works)	6	164	254	358	455	569
Revenue per SaaS customer (ex. Techni Works) ('\$000)		33.6	29.7	31.6	32.5	36.3
Modules per customer (ex. Techni Works)	7	1.50	1.91	2.22	2.29	2.55
Employees	8	58	67	80	106	129

Notes:

1. Refer to Section 4.2.4 for explanations of non-IFRS and other financial measures.
2. Pro forma cash receipts reflect the actual cash receipts of the business less cash receipts in relation to the discontinued RTO business and including cash receipts for Techni Works.
3. Recurring revenue represents the proportion of SaaS revenue compared to total revenue.
4. FY17 revenue run-rate reflects unaudited pro forma SaaS revenue in the twelve months to 31 March 2017 as a percentage of the FY17 pro forma forecast SaaS revenue. FY18 revenue run-rate reflects the unaudited annualised March 2017 revenue as a percentage of forecast FY18 SaaS revenue.
5. R&D spend includes total cash expenditure on R&D activities (e.g. including capitalised costs)
6. Number of customers reflects the actual or forecast number of ELMO customers (excluding Techni Works) at 30 June in each year.
7. Modules per customer reflects the average actual or forecast number of modules each individual customer has under licence as at 30 June each year.
8. Number of employees reflects the actual or forecast headcount at 30 June in each year.

## 4 Financial information

FIGURE 43: SUMMARY OF KEY PRO FORMA HALF YEAR HISTORICAL FINANCIAL AND OPERATING METRICS

Half year ended 31 December	Pro forma Historical	
	1H16	1H17
<b>Financial metrics</b>		
Cash receipts ('\$000)	6,926	8,362
Cash receipts as a % of revenue	109.3%	107.9%
Pro forma revenue growth (%)	n.a.	22.3%
SaaS revenue growth (ex. Techni Works) (%)	n.a.	26.0%
Recurring revenue (%)	97.5%	96.4%
Pro forma gross margin (%)	90.8%	89.5%
Pro forma EBITDA margin (%)	13.6%	6.1%
Sales and marketing spend % of revenue	27.3%	39.9%
General and administration spend % of revenue	47.7%	42.8%
R&D spend % of revenue	15.4%	12.2%
<b>Operational metrics</b>		
Number of customers (ex. Techni Works)	300	390
Revenue per SaaS customer (ex. Techni Works) ('\$000)	18.4	17.6
Modules per customer (ex. Techni Works)	2.16	2.26
Employees	67	85

Notes: Unless specified, refer to Figure 42 and Figure 40 for the notes relating to this figure.

### 4.5 Reconciliation of Statutory and Pro forma Historical and Forecast Income Statements

In presenting the Pro forma Historical Income Statements included in Section 4, certain adjustments to the audited statutory income statements have been made to include the acquisition of Techni Works as if it occurred on 1 July 2013, closure of the RTO division as if it occurred on 1 July 2013, incremental costs of operating a public company and exclude the one-off costs relating to the Offer. These pro forma adjustments are summarised below in Figure 44 for the Historical and Forecast Income Statements.

FIGURE 44: RECONCILIATION OF STATUTORY AND PRO FORMA HISTORICAL AND FORECAST INCOME STATEMENTS

A\$('000)		Historical			Forecast	
June year end	Notes	FY14	FY15	FY16	FY17	FY18
<b>Statutory revenue</b>		<b>7,981</b>	<b>10,024</b>	<b>12,626</b>	<b>16,064</b>	<b>22,402</b>
Net impact of Techni Works acquisition	1	1,604	1,436	1,285	284	—
Revenue from discontinued operation	2	(2,268)	(1,527)	(423)	10	—
<b>Pro forma revenue</b>		<b>7,317</b>	<b>9,933</b>	<b>13,488</b>	<b>16,358</b>	<b>22,402</b>

Notes:

1. ELMO completed the acquisition of Techni Works in October 2016 (at which point Techni Works revenue is included in Statutory revenue). The pro forma adjustment reflects the historical reported revenue of Techni Works between 1 July 2013 and the acquisition date.
2. In FY16 management elected to discontinue the RTO division. This adjustment removes the revenue associated with the RTO division as if ELMO had not operated it since 1 July 2013.

A\$('000)		Historical			Forecast	
June year end	Notes	FY14	FY15	FY16	FY17	FY18
<b>Statutory EBITDA</b>		<b>889</b>	<b>1,079</b>	<b>1,055</b>	<b>(91)</b>	<b>2,684</b>
EBITDA from discontinued operation	1	(153)	0	643	247	—
Net impact of Techni Works acquisition	2	1,566	1,343	1,234	274	—
Offer Costs	3	—	—	—	1,795	—
Incremental public company costs	4	(1,364)	(1,364)	(1,364)	(1,364)	—
<b>Pro forma EBITDA</b>		<b>938</b>	<b>1,058</b>	<b>1,567</b>	<b>860</b>	<b>2,684</b>

Notes:

1. In FY16 management elected to discontinue the RTO division. This adjustment removes the EBITDA associated with the RTO division as if ELMO had not operated it since 1 July 2013.
2. ELMO completed the acquisition of Techni Works in October 2016 (at which point Techni Works revenue is included in Statutory revenue). The pro forma adjustment reflects the historical revenue as well as the historical operating costs of Techni Works consistent with the ongoing cost structure under the ownership of ELMO.
3. ELMO has estimated that total Offer Costs of \$3.4 million will be incurred in FY17, including \$1.6 million which are expected to be offset directly against equity.
4. Public company costs represent ELMO's estimate of the incremental costs of operating as a publicly listed company, inclusive of Director's fees (\$0.4 million), production of annual reports and holding an annual general meeting (\$0.1 million), company secretarial and legal and adviser costs (\$0.3 million), annual listing and registry fees (\$0.1 million), the impact of the SEEP and HPEP management incentive plans (\$0.2 million) and other costs.

A\$('000)		Historical			Forecast	
June year end	Notes	FY14	FY15	FY16	FY17	FY18
<b>Statutory NPAT</b>		<b>641</b>	<b>331</b>	<b>88</b>	<b>(1,451)</b>	<b>223</b>
EBITDA from discontinued operation	1	(153)	0	643	247	—
Net impact of Techni Works acquisition	2	1,507	1,285	1,175	259	—
Offer Costs	3	—	—	—	1,795	—
Incremental public company costs	4	(1,364)	(1,364)	(1,364)	(1,364)	—
Net finance income	5	324	324	324	324	—
Amortisation adjustment	6	(546)	(349)	(125)	—	—
Pro forma tax adjustment	7	(125)	(71)	(550)	(604)	—
<b>Pro forma NPAT</b>		<b>283</b>	<b>155</b>	<b>191</b>	<b>(794)</b>	<b>223</b>

Notes:

1. In FY16 management elected to discontinue the RTO division. This adjustment removes the NPAT associated with the RTO division as if ELMO had not operated it since 1 July 2013.
2. ELMO completed the acquisition of Techni Works in October 2016 and the pro forma adjustment reflects the historical revenue as well as the historical operating costs of Techni Works consistent with the ongoing cost structure under the ownership of ELMO.
3. ELMO has estimated that total Offer Costs of \$3.4 million will be incurred in FY17, including \$1.6 million which are expected to be offset directly against equity.
4. Public company costs represent ELMO's estimate of the incremental costs of operating as a publicly listed company, inclusive of Director's fees (\$0.4 million), production of annual reports and holding an annual general meeting (\$0.1 million), company secretarial and legal and adviser costs (\$0.3 million), annual listing and registry fees (\$0.1 million), the impact of the SEEP and HPEP management incentive plans (\$0.2 million) and other costs.
5. Net finance income is based on the assumption that the Offer was completed on 30 June 2013 and overlays the net funds raised by the Company following completion of the Offer with the pro forma operating cash flows generated in each year. The adjustment reflects the additional interest income which ELMO expects to derive from the net cash raised through the Offer (\$21.6 million at 1.5% interest rate).
6. ELMO commenced capitalising development costs and direct sales commissions from 1 July 2013. This adjustment reflects the additional amortisation which would have been charged had ELMO adopted their current accounting policy at the beginning of FY11.
7. Income tax expense included in the Pro forma Historical Financial Information has been adjusted to reflect the assumption of an effective corporate tax rate of 30% applied to the pro forma profit before tax.

## 4 Financial information

In addition, set out in Figure 45 below is a summary of the pro forma adjustments made to the historical income statements for 1H16 and 1H17.

FIGURE 45: RECONCILIATION OF PRO FORMA HISTORICAL INCOME STATEMENTS FOR 1H16 AND 1H17

A\$('000)		Pro forma Historical	
Half-year ended 31 December	Notes	1H16	1H17
<b>Statutory NPAT</b>		<b>49</b>	<b>(371)</b>
Net loss from discontinued operations	1	237	247
Net impact of Techni Works acquisition	2	617	274
Incremental public company costs	3	(682)	(682)
Offer costs incurred in 1H17	4	–	61
Net finance income	5	162	162
Amortisation adjustment	6	(63)	–
Pro forma tax adjustment	7	(124)	(23)
<b>Pro forma NPAT</b>		<b>197</b>	<b>(332)</b>

Figure 44 for the notes relating to this figure.

### 4.6 Statutory Historical Income Statements

Set out in Figure 46 is a summary of the Statutory Historical Income Statements for ELMO for FY14, FY15, FY16, 1H16 and 1H17 which has been extracted from the statutory financial statements of ELMO Software Limited. Refer to Section 10 of the Prospectus for a summary of ELMO's statutory accounting policies.

FIGURE 46: STATUTORY HISTORICAL INCOME STATEMENTS

A\$('000)		Statutory Historical <sup>1,2</sup>			
June year end	FY14	FY15	FY16	1H16	1H17
SaaS revenue	5,515	7,532	11,303	5,534	7,187
Other income	2,466	2,492	1,324	460	269
<b>Total revenue</b>	<b>7,981</b>	<b>10,024</b>	<b>12,626</b>	<b>5,995</b>	<b>7,456</b>
Cost of sales	(999)	(1,182)	(1,544)	(735)	(905)
<b>Gross profit</b>	<b>6,982</b>	<b>8,842</b>	<b>11,082</b>	<b>5,260</b>	<b>6,551</b>
Sales and marketing	(3,127)	(3,548)	(4,924)	(1,969)	(3,124)
Research and development	(434)	(451)	(437)	(135)	(63)
General and administration	(2,532)	(3,764)	(4,666)	(2,463)	(2,795)
<b>Total operating expenses</b>	<b>(6,093)</b>	<b>(7,763)</b>	<b>(10,027)</b>	<b>(4,567)</b>	<b>(5,981)</b>
<b>EBITDA</b>	<b>889</b>	<b>1,079</b>	<b>1,055</b>	<b>692</b>	<b>570</b>
Depreciation	(84)	(91)	(92)	(96)	(161)
Amortisation	(186)	(693)	(1,393)	(603)	(958)
<b>EBIT</b>	<b>619</b>	<b>296</b>	<b>(430)</b>	<b>(7)</b>	<b>(550)</b>
Net finance income	18	30	50	17	13
<b>Profit before taxation</b>	<b>637</b>	<b>326</b>	<b>(380)</b>	<b>10</b>	<b>(537)</b>
Income tax (expense)/ benefit	4	5	468	39	166
<b>Statutory NPAT</b>	<b>641</b>	<b>331</b>	<b>88</b>	<b>49</b>	<b>(371)</b>

Notes:

1. The Statutory Historical Income Statement have been extracted from ELMO's FY14, FY15, FY16, 1H16 and 1H17 audited financial statements.
2. A reconciliation of Pro forma NPAT and Statutory NPAT for FY14, FY15 and FY16 is presented in Section 4.5.

#### 4.7 Pro forma Historical, Pro forma Forecast and Statutory Forecast Cash Flows

Set out in Figure 47 is a summary of the Pro forma Historical Cash Flows for FY14, FY15, FY16 and the Pro forma Forecast Cash Flows for FY17, FY18 and the Statutory Forecast Cash Flows for FY17.

FIGURE 47: HISTORICAL AND FORECAST CASH FLOW STATEMENTS

A\$('000)		Pro forma Historical			Pro forma Forecast		Statutory Forecast	
Year Ended 30 June	Notes	FY14	FY15	FY16	FY17	FY18	FY17	FY18
<b>EBITDA</b>	1	<b>938</b>	<b>1,058</b>	<b>1,567</b>	<b>860</b>	<b>2,684</b>	<b>(91)</b>	<b>2,684</b>
Non-cash items in EBITDA	2	99	113	277	99	99	—	99
Changes in working capital		1,337	1,141	1,217	1,981	3,321	2,080	3,321
<b>Operating cash flow</b>		<b>2,374</b>	<b>2,312</b>	<b>3,061</b>	<b>2,940</b>	<b>6,104</b>	<b>1,989</b>	<b>6,104</b>
Capitalised development costs and sales commissions	3	(1,031)	(1,933)	(2,259)	(2,626)	(4,006)	(2,626)	(4,006)
Capital expenditure	4	(157)	(118)	(278)	(237)	(180)	(237)	(180)
<b>Free cash flow before investing, financing and tax</b>		<b>1,186</b>	<b>261</b>	<b>524</b>	<b>77</b>	<b>1,918</b>	<b>(874)</b>	<b>1,918</b>
Techni Works acquisition	5						(1,040)	(1,000)
Proceeds from the issue of shares	6						1,200	—
R&D Tax Incentive	7						300	300
Net finance income							41	421
<b>Net cash flow before the impact of the Offer</b>							<b>(374)</b>	<b>1,639</b>
Offer proceeds, net of costs	8						21,594	—
<b>Net cash flow</b>							<b>21,220</b>	<b>1,639</b>
Operating cash flow conversion		253.2%	218.5%	195.3%	341.7%	227.4%	(2182.8%)	227.4%
Free cash flow conversion		126.5%	24.6%	33.4%	9.0%	71.5%	959.8%	71.5%

Notes:

1. Pro forma EBITDA has been adjusted to reflect the pro forma adjustments as set out in Section 4.5.
2. Non-cash items in EBITDA relate to bad debt expenses and the share based payment component of the SEEP and HPEP management incentive plans.
3. Capitalised development costs include the capitalised portion of wages and salaries of software developers and sales commission paid to employees.
4. Capital expenditure includes computer equipment and property, plant and equipment and leasehold improvements.
5. In respect of the Techni Works acquisition ELMO paid \$1.0 million at the time of acquisition with an estimated \$1.0 million to be paid during FY18.
6. During 1H17 key Executives acquired shares to the value of \$1.2 million.
7. Relates to the expected receipt of R&D Tax Incentive claims.
8. Proceeds from the Offer are expected to be \$25 million less non-recurring Offer Costs directly attributable to the issue of shares under the Offer (\$3.4 million).



## 4 Financial information

### 4.8 Reconciliation of Statutory and Pro forma Historical and Forecast Cash Flows

Figure 48 sets out the adjustments that have been made to the Statutory Historical Cash Flows for FY14, FY15 and FY16 and the Forecast Cash Flows for FY17 and FY18 to eliminate certain items which do not relate to the operations of the Group subsequent to the completion of the Offer.

FIGURE 48: PRO FORMA ADJUSTMENTS TO THE STATUTORY HISTORICAL CASH FLOWS FOR FY14, FY15, FY16 AND THE PRO FORMA AND STATUTORY FORECAST CASH FLOWS FOR FY17 AND FY18

A\$('000)		Historical			Forecast	
June year end	Notes	FY14	FY15	FY16	FY17	FY18
<b>Statutory free cash flow before investing, financing and tax</b>		<b>885</b>	<b>741</b>	<b>282</b>	<b>(874)</b>	<b>1,918</b>
Impact of discontinued operation	1	(153)	(0)	643	247	—
Impact of Techni Works acquisition	2	1,464	1,286	1,254	175	—
Offer Costs within EBITDA	3	—	—	—	1,795	—
Incremental public company costs	4	(1,266)	(1,266)	(1,266)	(1,266)	—
Pro forma working capital adjustment	5	256	(501)	(389)	—	—
<b>Pro forma free cash flow before investing, financing and tax</b>		<b>1,186</b>	<b>261</b>	<b>524</b>	<b>77</b>	<b>1,918</b>

Notes:

1. Reflects the NPAT from the discontinued RTO division. NPAT has been assumed to reflect the free cash flow impact of the RTO division
2. Reflects the free cash flows relating to Techni Works which includes EBITDA, working capital movements and capital expenditure.
3. Non-recurring Offer costs of \$3.4 million have been incurred which include \$1.6 million that have been offset against equity. The balance of \$1.8 million will be expensed in the FY17 Statutory Forecast and have been removed from the Pro forma Forecast net free cash flows.
4. Public company costs represent ELMO's estimate of the incremental costs of operating as a publicly listed company, inclusive of Director's fees (\$0.4 million), production of annual reports and holding an annual general meeting (\$0.1 million), company secretarial and legal and adviser costs (\$0.3 million), annual listing and registry fees (\$0.1 million), the cash impact of the SEEP and HPEP management incentive plans (\$0.2 million) and other costs.
5. Pro forma working capital adjustment represents the net effect of amounts that have been treated differently for statutory reporting purposes and the pro forma working capital movements.

#### 4.9 Pro forma Historical Balance Sheet

Figure 49 below presents the audited statutory balance sheet of ELMO as at 31 December 2016 adjusted to reflect the impact of the Offer as if it had taken place as at 31 December 2016.

The Pro forma Historical Balance Sheet is provided for illustrative purposes and is not represented as being indicative of ELMO's view of its potential future financial position.

FIGURE 49: PRO FORMA HISTORICAL BALANCE SHEET AS AT 31 DECEMBER 2016

A\$('000)		Statutory	Pro forma	
31 December 2016	Notes	31 December 2016	Impact of the Offer	31 December 2016
ASSETS				
Current Assets				
Cash and cash equivalents	1	2,698	21,594	24,292
Trade and other receivables		2,666	—	2,666
Income tax receivable		1,042	—	1,042
Other current assets		185	—	185
Total current assets		6,591	21,594	28,186
Non-current assets				
Property, plant and equipment		400	—	400
Intangibles		5,798	—	5,798
Deferred tax assets	2	—	1,022	1,022
Total non-current assets		6,198	1,022	7,220
Total assets		12,789	22,616	35,405
LIABILITIES				
Current liabilities				
Trade and other payables		1,314	—	1,314
Business combination liability		1,000	—	1,000
Employee benefits		452	—	452
Accrued expense		589	—	589
Income in advance		7,742	—	7,742
Total current liabilities		11,097	—	11,097
Non-current liabilities				
Deferred tax liabilities		796	—	796
Employee benefits		96	—	96
Total non-current liabilities		891	—	891
Total liabilities		11,988	—	11,988
Net assets		801	22,616	23,417
EQUITY				
Issued capital	1	1,550	23,872	25,422
Accumulated losses	3	(749)	(1,256)	(2,005)
Total equity		801	22,616	23,417

Notes:

1. Cash increases reflecting the equity raised through proceeds of the Offer of \$25.0 million less \$3.4 million costs of the Offer. The net increase to Equity includes the costs of the Offer which have been offset against Equity (\$1.6 million) and \$49,500 relating to the Employee Gift Offer.
2. Deferred tax asset adjustment represents the recognition of deferred tax assets that arise as a result of the payment of IPO costs by the Group on Completion of the Offer (\$1.0 million).
3. Adjustment to accumulated losses reflects the Offer costs expensed in the income statement net of 30% tax.

## 4 Financial information

### 4.10 Liquidity and capital sources

Following Completion, ELMO's principal sources of funds will be cash flow from operations and cash held at Completion of the Offer.

ELMO expects that it will have sufficient cash flow from operations to meet its business needs during the forecast period and will have sufficient working capital to carry out its stated objectives.

### 4.11 Reconciliation of capitalised development costs

ELMO capitalises a proportion of employee costs relating to the development and enhancement of software which is licenced to customers. The capitalised costs are amortised on a straight-line basis over a three-year period.

The total cost to the income statement in a year is the proportion of costs which are expensed (typically relating to research time and maintenance of the software) and the amortisation expense.

The cash outflow includes both the amount capitalised in the Cash Flow Statement in that given year as well as the expense recognised in the income statement (ignoring any working capital impacts at the start and end of the year).

FIGURE 50: RECONCILIATION OF CAPITALISED DEVELOPMENT COSTS

A\$('000)		Pro forma Historical			Pro forma Forecast	
June year end	Notes	FY14	FY15	FY16	FY17	FY18
Income statement						
Amortisation of research and development costs	1	684	901	1,218	1,591	2,017
Research and development costs expensed	2	434	451	437	435	565
Total expense included in the income statement		1,118	1,353	1,655	2,027	2,582
Cash flow						
Capitalised research and development costs	2	883	1,523	1,663	2,050	3,296
Research and development costs expensed	2	434	451	437	435	565
Total research and development costs in the cash flow statement		1,317	1,975	2,100	2,486	3,862

Notes:

1. Reflects the amortisation of software development costs capitalised in the year. The expense will typically include amortisation relating to costs capitalised in the current year and preceding two years.
2. Reflects the costs incurred which meet the recognition criteria in AASB 138 Intangible Assets.

### 4.12 Management discussion and analysis of Pro forma Historical Income Statements and Pro forma Historical Cash Flow

#### 4.12.1 Key factors affecting ELMO's financial performance

This Section discusses the general factors which affected ELMO's operational and relative financial performance in FY14, FY15, FY16, 1H16 and 1H17 and which the Company expects may continue to affect it in future.

The discussion of these general factors is intended to provide a summary only and does not detail all factors that have affected ELMO's historical operating and financial performance, or everything that could have an impact on its operational and financial performance in the future.

Unless otherwise stated, all metrics and financial information presented in this Section, and the related commentary is on a pro forma basis.

##### 4.12.1.1 Revenue

ELMO derives revenue from a number of related revenue streams including:

- SaaS revenue: collecting contracted recurring annual licence fees from customers based on a contracted fee per user per module within the talent management software solutions suite which also covers;
  - standard implementation and configuration time;
  - eLearning courses; and
  - online training courses through the Techni Works learning management system.
- Other income: professional fees in respect of non-standard implementation, configuration, training and integration fees and other income such as government grants.

#### 4.12.1.2 Expenses

An explanation of key expense categories is as follows:

- **cost of sales:** primarily relates to the wages, salaries and other expenses of ELMO's employees who carry out the implementation, training and support of software for customers. Cost of sales also includes third party hosting costs. These costs generally increase in line with revenue growth;
- **sales and marketing expenses:** relate to the wages and salaries of the sales and marketing team, advertising spend, hosting of seminars, exhibits at trade shows and sponsorship. These costs are expected to increase as ELMO continues to invest in the sales and marketing team to drive future revenue growth;
- **research and development expenses:** relates to the proportion of wages, salaries and other expenses of ELMO's research and development team who undertake research, development and maintenance activities in relation to the talent management software solution suite; and
- **general and administration expenses:** relates to the wages, salaries and other expenses of ELMO's management and administration teams. Increased headcount throughout the business has driven increases in the overall cost over the period under review. Other expenses include director fees, premises costs, travel, audit, accounting, legal fees and insurance. These costs are expected to increase as the business continues to grow.

#### 4.12.1.3 Depreciation and amortisation

Depreciation expense relates to the depreciation of plant and equipment (fixtures and fittings), computer equipment and leasehold improvements (office fit outs) owned by ELMO.

Amortisation relates to intangible assets with finite lives, including capitalised software development costs, capitalised sales commission costs and acquired customer contracts from the Techni Works acquisition.

#### 4.12.1.4 Working capital

ELMO's working capital relates primarily to the Company's income received in advance as well as trade receivables, prepaid insurances, trade payables, other creditors accrued expenses, GST and accrued wages and salaries. ELMO operates a negative net working capital position due to the fact that customers pay for their contracts annually in advance, which is shown as deferred income on the balance sheet. Deferred income, and ELMO's negative net working capital position are expected to continue to increase as revenue grows.

#### 4.12.1.5 Capital expenditure, capitalised development and sales commissions

Capital expenditure has historically comprised expenditure on:

- **software development:** including primarily the wages, salaries and other expenses of employees whose roles relate to the development and enhancement of modules within the talent management software suite;
- **sales commission costs:** paid to employees in relation to securing new contracts with a contracted term more than one year; and
- **fixed assets:** primarily computer equipment.

## 4 Financial information

### 4.12.2 Management discussion and analysis of Pro forma FY14 Income Statement compared to Pro forma FY15 Income Statement

FIGURE 51: SUMMARY OF PRO FORMA INCOME STATEMENT FY14 COMPARED TO FY15

A\$('000)		Pro forma Historical		Percentage Change
June year end	Notes	FY14	FY15	%
SaaS Revenue		7,111	8,968	26.1%
Other income	1	207	965	367.0%
<b>Total revenue</b>		<b>7,317</b>	<b>9,933</b>	<b>35.7%</b>
Cost of sales	2	(624)	(869)	39.3%
<b>Gross profit</b>		<b>6,693</b>	<b>9,064</b>	<b>35.4%</b>
Sales and marketing		(1,659)	(2,599)	56.7%
Research and development	3	(434)	(451)	4.0%
General and administration		(3,663)	(4,955)	35.3%
<b>Total operating expenses</b>		<b>(5,756)</b>	<b>(8,006)</b>	<b>39.1%</b>
<b>EBITDA</b>		<b>938</b>	<b>1,058</b>	<b>12.8%</b>
Depreciation		(84)	(91)	7.4%
Amortisation		(791)	(1,100)	39.1%
<b>EBIT</b>		<b>62</b>	<b>(133)</b>	<b>(312.8%)</b>
<b>Key Operating Metrics<sup>4</sup></b>		<b>FY14</b>	<b>FY15</b>	
<b>Financial metrics</b>				
Cash receipts ('\$000)		9,476	11,962	
Cash receipts as a % of revenue		129.5%	120.4%	
Pro forma revenue growth (%)		n.a.	35.7%	
SaaS revenue growth (ex. Techni Works) (%)		n.a.	36.8%	
Recurring revenue (%)		97.2%	90.3%	
Pro forma gross margin (%)		91.5%	91.2%	
Pro forma EBITDA margin (%)		12.8%	10.7%	
Sales and marketing spend % of revenue		22.7%	26.2%	
General and administration spend % of revenue		50.1%	49.9%	
R&D spend % of revenue		18.0%	19.9%	
<b>Operational metrics</b>				
Number of customers (ex. Techni Works)		164	254	
Revenue per SaaS customer (ex. Techni Works) ('\$000)		33.6	29.7	
Modules per customer (ex. Techni Works)		1.50	1.91	
Employees		58	67	

Notes:

1. Other income is professional fees in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants.
2. Cost of sales comprises the wages and salaries of employees who undertake software implementation work as well as the costs associated with web hosting services. Cost of sales does not include other indirect costs nor does it include an allocation of overheads.
3. Research and development expenses relate to research activity and is the portion of wages and salaries of software developers that is expensed.
4. Unless specified please refer to Figure 42 for the notes relating to this Section 4.

#### 4.12.2.1 Revenue and gross profit

Total revenue increased by 35.7% from \$7.3 million in FY14 to \$9.9 million in FY15. The growth was primarily driven by:

- Growth in SaaS revenue (excluding Techni Works revenues) of 36.8% from \$5.5 million in FY14 to \$7.5 million in FY15 due to:
  - an increase in the number of customers from 164 at 30 June 2014 to 254 by 30 June 2015; and
  - an increase in the licencing of additional modules to both new and existing customers from an average of 1.50 in FY14 to 1.91 in FY15. The increase in the average number of modules per customers was driven by the roll out of the Onboarding module as well as increased penetration of the Performance Management module;
- An increase in ELMO's other income of \$0.8 million from \$0.2 million in FY14 to \$1.0 million in FY15. The increase was driven by non-standard implementations, integrations, configuration and training.

Gross profit increased by 35.4% from \$6.7 million in FY14 to \$9.1 million in FY15 as a result of the increase in revenue. The gross margin remained broadly consistent at 91.2%.

#### 4.12.2.2 Operating expenses

Total operating expenses grew 39.1% from \$5.8 million in FY14 to \$8.0 million in FY15.

The movement in operating expenses was primarily driven by:

- increased employee costs as headcount increased from 58 at 30 June 2014 to 67 by 30 June 2015, particularly the hire of additional business development managers and account managers (six) and staff in Singapore (four);
- increased marketing expenses through social media campaigns, online advertising, seminars, sponsorship of key industry associations and exhibiting at trade shows; and
- increased general and administration costs supporting business growth, in particular the opening of offices in Melbourne and Perth in late FY14, which had a full year impact in FY15.

The R&D spend in the income statement was consistent in both FY14 and FY15. However the total cash spend (including amounts capitalised to the balance sheet) as a percentage of revenue increased from 18.0% in FY14 to 19.9% in FY15 as a result of the increased headcount in the R&D team from 8 at 30 June 2014 to 11 by 30 June 2015.

#### 4.12.2.3 EBITDA

EBITDA increased 12.8% from \$0.9 million in FY14 to \$1.1 million in FY15 as a result of the revenue growth of 35.7% compared to total expenses (including cost of sales) growth of 39.1%. This equates to a decrease in the EBITDA margin from 12.8% to 10.7%.

EBITDA margin declined primarily as a result of the investment in headcount, particularly sales focused staff, and company infrastructure. The hire of additional sales-focused employees was expected to generate revenue growth in future years.

#### 4.12.2.4 EBIT

ELMO incurred a \$133,000 loss at the EBIT level in FY15 as a result of higher amortisation expense, which increased 39.1%, from \$0.8 million in FY14 to \$1.1 million in FY15. This can be attributed to the increase in capitalised development costs and sales commission expense being amortised over a three year period.

FIGURE 52: SUMMARY PRO FORMA FREE CASH FLOWS FY14 COMPARED TO FY15

A\$('000)		Pro forma Historical Cash Flows		Percentage Change
Year Ended 30 June	Notes	FY14	FY15	%
<b>EBITDA</b>		<b>938</b>	<b>1,058</b>	<b>12.8%</b>
Non-cash items in EBITDA		99	113	14.1%
Changes in working capital		1,337	1,141	(14.7%)
<b>Operating cash flow</b>		<b>2,374</b>	<b>2,312</b>	<b>(2.6%)</b>
Capitalised development costs and sales commissions		(1,031)	(1,933)	87.5%
Other capital expenditure		(157)	(118)	(24.6%)
<b>Free cash flow before investing, financing and tax</b>		<b>1,186</b>	<b>261</b>	<b>(78.0%)</b>
Operating cash flow conversion	1	253.2%	218.5%	
Free cash flow conversion	2	126.5%	24.6%	

Notes:

1. Operating cash flow conversion is defined as operating cash flow divided by EBITDA.
2. Free cash flow conversion is defined as Free cash flow divided by EBITDA.



## 4 Financial information

### 4.12.2.5. Change in working capital

Working capital decreased (a higher negative position) resulting in a cash inflow of \$1.1 million. The decrease was driven by growth in the ELMO business resulting in increases in deferred income and trade payables partially offset by the increase in trade receivable.

### 4.12.2.6. Capitalised development and sales commissions

Capitalised development and direct sales commissions grew by 87.5% from \$1.0 million to \$1.9 million. The movement was primarily due to an increase in the headcount of software developers (capitalised R&D) and growth in revenue resulting in higher capitalised direct sales commissions. Further details of the relevant accounting policy on capitalisation of expenses adopted by ELMO is included in Section 10.

### 4.12.2.7. Other capital expenditure

There was a slight reduction in capital expenditure on plant and equipment as Management sought to leverage prior investment.

## 4.12.3 Management discussion and analysis of Pro forma FY15 Income Statement compared to Pro forma FY16 Income Statement.

FIGURE 53: SUMMARY PRO FORMA INCOME STATEMENT FY15 COMPARED TO FY16

A\$('000)		Pro forma Historical		Percentage Change
June year end	Notes	FY15	FY16	%
SaaS Revenue		8,968	12,588	40.4%
Other income	1	965	901	(6.7%)
<b>Total revenue</b>		<b>9,933</b>	<b>13,488</b>	<b>35.8%</b>
Cost of sales	2	(869)	(1,242)	42.8%
<b>Gross profit</b>		<b>9,064</b>	<b>12,247</b>	<b>35.1%</b>
Sales and marketing		(2,599)	(4,435)	70.6%
Research and development	3	(451)	(437)	(3.1%)
General and administration		(4,955)	(5,808)	17.2%
<b>Total operating expenses</b>		<b>(8,006)</b>	<b>(10,680)</b>	<b>33.4%</b>
<b>EBITDA</b>		<b>1,058</b>	<b>1,567</b>	<b>48.1%</b>
Depreciation		(91)	(92)	1.2%
Amortisation		(1,100)	(1,576)	43.3%
<b>EBIT</b>		<b>(133)</b>	<b>(101)</b>	<b>(23.9%)</b>
<b>Key Operating Metrics<sup>4</sup></b>		<b>FY15</b>	<b>FY16</b>	
<b>Financial metrics</b>				
Cash receipts ('\$000)		11,962	15,704	
Cash receipts as a % of revenue		120.4%	116.4%	
Pro forma revenue growth (%)		35.7%	35.8%	
SaaS revenue growth (ex. Techni Works) (%)		36.8%	50.1%	
Recurring revenue (%)		90.3%	93.3%	
Pro forma gross margin (%)		91.2%	90.8%	
Pro forma EBITDA margin (%)		10.7%	11.6%	
Sales and marketing spend % of revenue		26.2%	32.9%	
General and administration spend % of revenue		49.9%	43.1%	
R&D spend % of revenue		19.9%	15.6%	
<b>Operational metrics</b>				
Number of customers (Ex. Techni Works)		254	358	
Revenue per SaaS customer (ex. Techni Works) ('\$000)		29.7	31.6	
Modules per customer (Ex. Techni Works)		1.91	2.22	
Employees		67	80	

Notes:

1. Other income is professional fees in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants.
2. Cost of sales comprises the wages and salaries of employees who undertake software implementation work as well as the costs associated with web hosting services. Cost of sales does not include other indirect costs nor does it include an allocation of overheads.
3. Research and development expenses relate to research activity and is the portion of wages and salaries of software developers that is expensed.
4. Unless specified please refer to Figure 42 for the notes relating to this Section 4.

#### 4.12.3.1 Revenue and gross profit

Total revenue increased by 35.8% from \$9.9 million in FY15 to \$13.5 million in FY16. The increase was primarily driven by growth in SaaS revenue (excluding Techni Works) of 50.1% from \$7.5 million in FY15 to \$11.3 million in FY16 due to:

- an increase in the active number of users of existing customers (i.e. when customers increase their headcount and additional users are added to the licence);
- an increase in the average number of modules licenced by customers from 1.91 at 30 June 2015 to 2.22 at 30 June 2016. This increase includes the impact of the roll out of the Recruitment module which was introduced during FY16 as well as increased penetration of the Performance Management and Onboarding modules; and
- an increase in the number of customers from 254 at 30 June 2015 to 358 at 30 June 2016.

ELMO's other income remained broadly stable through FY16. Although SaaS revenue grew, the volume of non-standard implementations, integrations, configuration and training remained consistent with FY15.

Gross profit increased by 35.1% from \$9.1 million in FY15 to \$12.2 million in FY16 as a result of the increase in revenue. The gross margin remained consistent at 91% in both FY15 and FY16.

#### 4.12.3.2 Operating expenses

Total operating expenses grew 33.4% from \$8.0 million in FY15 to \$10.7 million in FY16.

The movement in operating expenses was primarily driven by:

- increased employee costs as headcount grew from 67 at 30 June 2015 to 80 at 30 June 2016. Of this increase six positions were created in the sales and marketing team with a further three in the R&D team;
- increased marketing expenses through continued social media campaigns, sponsorship of key industry associations, exhibits at 32 industry events, running 17 ELMO promotional events and increased spend on web search engine advertising; and
- increased administrative costs due to the increase in Sydney office space and an increase in the overall size of ELMO.

The overall R&D spend in the income statement remained consistent between FY15 and FY16. However the total R&D spend, including amounts capitalised on the balance sheet, increased slightly from \$2.0 million in FY15 to \$2.1 million in FY16 (6.4%). R&D spend as a percentage of revenue declined from 19.9% in FY15 to 15.6% in FY16 as a result of higher revenue growth of 35.8% in FY16. The higher revenue growth was in part due to ELMO's investment in module development and additional sales and marketing in the prior years.

#### 4.12.3.3. EBITDA

EBITDA grew 48.1% from \$1.1 million in FY15 to \$1.6 million in FY16 as a result of revenue growth of 35.8% compared to total expenses (including cost of sales) growth of 34.3%. This equates to an increase in the EBITDA margin from 10.7% to 11.6%.

The EBITDA margin improved as ELMO was able to leverage the corporate cost base with total General and administration costs as a percentage of revenue declining from 49.9% in FY15 to 43.1% in FY16.

#### 4.12.3.4. EBIT

ELMO incurred a \$101,000 loss at the EBIT level in FY16 as a result of higher amortisation expense, which increased 43.3%, from \$1.1 million in FY15 to \$1.6 million in FY16. This can be attributed to the increase in capitalised development costs and sales commission expense being amortised over a three year period.

FIGURE 54: SUMMARY OF PRO FORMA FREE CASH FLOW STATEMENT FY15 COMPARED TO FY16

A\$('000)		Pro forma Historical Cash Flows		Percentage Change
June year end	Notes	FY15	FY16	%
<b>EBITDA</b>		<b>1,058</b>	<b>1,567</b>	<b>48.1%</b>
Non-cash items in EBITDA		113	277	145.3%
Changes in working capital		1,141	1,217	6.7%
<b>Operating cash flow</b>		<b>2,312</b>	<b>3,061</b>	<b>32.4%</b>
Capitalised development costs and sales commissions		(1,933)	(2,259)	16.9%
Other capital expenditure		(118)	(278)	135.2%
<b>Free cash flow before investing, financing and tax</b>		<b>261</b>	<b>524</b>	<b>101.0%</b>
Operating cash flow conversion	1	218.5%	195.3%	
Free cash flow conversion	2	24.6%	33.4%	

Notes:

1. Operating cash flow conversion is defined as operating cash flow divided by EBITDA.
2. Free cash flow conversion is defined as Free cash flow divided by EBITDA.

## 4 Financial information

### 4.12.3.5. Change in working capital

In FY16 working capital decreased (a higher negative position) resulting in a net cash inflow of \$1.2 million. The decrease was attributable to higher deferred revenue coupled with a slight decline in trade receivables. The increase in revenue received in advance reflected the continued growth of the business and signing up of new customers.

### 4.12.3.6. Capitalised development and sales commissions

Capitalised development costs and capitalised direct sales commissions grew by 16.9% from \$1.9 million to \$2.3 million. The movement is attributable to the increased spend on software developers with headcount increasing from 11 to 14 during FY16 and higher sales revenue, resulting in higher capitalised direct commissions.

### 4.12.3.7. Other capital expenditure

Other capital expenditure on plant and equipment and computer equipment increased \$0.2 million primarily through an increase in the acquisition of IT equipment to support the expansion of the premises in Sydney and the growth in the headcount.

### 4.12.4. Management discussion and analysis of Pro forma 1H16 Income Statement compared to Pro forma 1H17 Income Statement.

FIGURE 55: PRO FORMA INCOME STATEMENT 1H16 COMPARED TO 1H17

A\$('000)		Pro forma Historical		Percentage Change
Half-year ended 31 December	Notes	1H16	1H17	%
SaaS revenue		6,177	7,471	20.9%
Other income	1	160	279	74.7%
<b>Total revenue</b>		<b>6,337</b>	<b>7,750</b>	<b>22.3%</b>
Cost of sales	2	(581)	(814)	40.1%
<b>Gross Profit</b>		<b>5,756</b>	<b>6,936</b>	<b>20.5%</b>
Sales and marketing		(1,731)	(3,089)	78.4%
Research and development	3	(135)	(63)	(53.8%)
General and administration		(3,025)	(3,315)	9.6%
<b>Total operating expenses</b>		<b>(4,892)</b>	<b>(6,466)</b>	<b>32.2%</b>
<b>EBITDA</b>		<b>864</b>	<b>470</b>	<b>(45.7%)</b>
Depreciation		(96)	(161)	67.3%
Amortisation		(666)	(958)	43.9%
<b>EBIT</b>		<b>102</b>	<b>(650)</b>	<b>(735.7%)</b>
<b>Key Operating Metrics<sup>4</sup></b>		<b>1H16</b>	<b>1H17</b>	
<b>Financial metrics</b>				
Cash receipts ('\$000)		6,926	8,362	
Cash receipts as a % of revenue		109.3%	107.9%	
Pro forma revenue growth (%)		n.a.	22.3%	
SaaS revenue growth (ex. Techni Works) (%)		n.a.	26.0%	
Recurring revenue (%)		97.5%	96.4%	
Pro forma gross margin (%)		90.8%	89.5%	
Pro forma EBITDA margin (%)		13.6%	6.1%	
Sales and marketing spend % of revenue		27.3%	39.9%	
General and administration spend % of revenue		47.7%	42.8%	
R&D spend % of revenue		15.4%	12.2%	
<b>Operational metrics</b>				
<b>Number of customers (ex. Techni Works)</b>		<b>300</b>	<b>390</b>	
Revenue per SaaS customer (ex. Techni Works) ('\$000)		18.4	17.6	
Modules per customer (ex. Techni Works)		2.16	2.26	
Employees		67	85	

Notes:

- Other income is professional fees in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants.
- Cost of sales comprises the wages and salaries of employees who undertake software implementation work as well as the costs associated with web hosting services. Cost of sales does not include other indirect costs nor does it include an allocation of overheads.
- Research and development expenses relate to research activity and is the portion of wages and salaries of software developers that is expensed.
- Unless specified please refer to Figure 42 for the notes relating to this Section 4.

#### 4.12.4.1. Revenue and gross profit

Between 1H16 and 1H17 total revenue grew 22.3% from \$6.3 million in 1H16 to \$7.8 million in 1H17. The movement was driven by the increase in SaaS revenue (excluding Techni Works) of 26.0% from \$5.5 million to \$7.0 million in 1H17. This movement was predominantly driven through a combination of:

- an increase in the number of contracted customers, reflecting the impact of the part-period impact of new customers won during 1H17 and the six-month contribution of new customers won in FY16;
- new business with existing customers through an increase in the uptake of modules licensed to 2.26, compared to 2.16 in 1H16; and
- the roll out of new modules including the Recruitment module and increased penetration of the Performance Management and Onboarding modules.

ELMO's Other income increased by \$0.2 million, or 74.7% from \$0.2 million in 1H16 to \$0.3 million in 1H17. The increase was driven by non-standard implementations, integrations, configuration and training.

Gross profit increased by 20.5% from \$5.8 million in 1H16 to \$6.9 million in 1H17 as a result of the increase in revenue. The gross margin decreased from 90.8% to 89.5%, driven by an increase in the headcount of implementation employees.

#### 4.12.4.2. Operating expenses

Total operating expenses grew 32.2% from \$4.9 million in 1H16 to \$6.5 million in 1H17.

The movement in operating expenses was primarily driven by:

- the Company's strategic decision to invest in future growth by expanding the sales and marketing team, the R&D team and supporting corporate infrastructure;
- increased employee costs as a result of increased headcount from 67 at 31 December 2015 to 85 at 31 December 2016, particularly account managers (10) and the digital marketing team;
- increased marketing expenses through continued social media campaigns, sponsorship of key industry associations, exhibiting at trade shows, ELMO run seminars and webinars and an increased spend on web search engines; and
- increased administrative costs due to the expansion of office space in Sydney and an increase in the overall size of ELMO.

#### 4.12.4.3. EBITDA

EBITDA declined from \$0.9 million in 1H16 to \$0.5 million in 1H17 as a result of revenue growth of 22.3% compared to total expense growth (including cost of sales) of 33.0%. This equates to a decrease in the EBITDA margin from 13.6% to 6.1%. EBITDA declined as a result of the investment in both headcount, particularly sales focused staff, and the R&D function. This investment in the cost structure is expected to generate benefits in future years through greater revenue and an enhanced, broader, product suite.

#### 4.12.4.4. EBIT

ELMO incurred a \$650,000 loss at the EBIT level in 1H17 as a result of the reduction in EBITDA explained above, together with higher amortisation expense, which increased 43.9%, from \$0.7 million in 1H16 to \$1.0 million in 1H17. The increase in amortisation expense is attributed to the increase in capitalised development costs and sales commission expense being amortised over a three-year period.

### 4.13 Forecast Financial Information

The basis of preparation for the Forecast Financial Information is detailed in this Section 4.13. Section 4.13.1 includes the Directors' best estimate general assumptions adopted in preparing the Forecast Financial Information Period. In addition to these general assumptions, assumptions specific to the Forecast are detailed in Section 4.13.2.

#### 4.13.1 General assumptions

The following general assumptions are relevant to the Forecast Financial Information:

- there are no material changes in the competitive and operating environment in which ELMO operates;
- there are no significant deviations from current market expectations of economic and market conditions under which ELMO operates;
- there are no material changes in government legislation, tax legislation, regulatory requirements or government policy that will have a material impact on the financial performance, cash flows, financial position, accounting policies, financial reporting or disclosures of ELMO;
- there are no changes in applicable AAS, IFRS, other mandatory professional reporting requirements or the Corporations Act which could have a material impact on ELMO's reported financial performance or cash flows, financial position, accounting policies, financial reporting or disclosures;
- there are no material employee relations disputes or other disturbances, contingent liabilities or legal claims that arise or that are settled to the detriment of ELMO;
- there are no material changes in key personnel, including key management personnel. It is also assumed that ELMO will maintain its ability to recruit and retain the personnel required to support future growth;
- there are no material changes to ELMO's corporate and funding structure other than the transactions contemplated under the terms of the Offer set out in this Prospectus;
- there are no significant disruptions to the continuity of operations of ELMO or other material changes in the business;
- there are no material amendments to any material contract, agreement or arrangement relating to ELMO's business or intellectual property;
- none of the risks listed in Section 5 has a material adverse impact on the operations of ELMO; and
- the Offer proceeds are received in accordance with the timetable set out in the Key dates section of this Prospectus.

## 4 Financial information

### 4.13.2. Specific material assumptions affecting the Forecast Financial Information and management discussion

The Forecast Financial Information has been prepared with consideration of the trading performance of ELMO through to 30 April 2017 and is based on various specific assumptions, of which the key assumptions are set out below. The assumptions below are a summary only and do not represent all factors that will affect ELMO's forecast financial performance. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. The assumptions apply to FY18 and 2H17.

#### 4.13.2.1. Revenue

The Forecast Financial Information is based on the following key revenue assumptions:

- the renewal rate of existing contracted customers whose agreement is due to expire in the forecast period is consistent with the historical average renewal rate;
- acquisition of an additional 97 customers in FY17 and 114 in FY18 (net of customer attrition) such that the total number of customers at the end of FY17 is 455 and the end of FY18 is 569 (excluding Techni Works);
- effective average revenue per SaaS customer (excluding Techni Works) of \$32,500 in FY17 and \$36,300 in FY18;
- growth from the sale of additional modules within the talent management software suite to existing customers such that the average modules per customer is equal to 2.55 by FY18;
- growth from existing customers for additional users of the Talent Management Software, i.e. where a customer employee base expands resulting in additional user licence requirements; and
- pricing of individual modules is forecast to remain consistent with recent historical levels.

#### 4.13.2.2. Cost of goods sold

Key assumptions underlying cost of sales in the Forecast period include:

- employee costs are forecast to increase in line with the planned increase in revenue to support the overall growth of the business and are based on current remuneration contracts and agreements; and
- hosting costs are forecast to increase in line with the growth in the business.

#### 4.13.2.3. Operating Expenses

Key assumptions underlying operating expenses in the Forecast period include:

- Sales and marketing expenses
  - sales and marketing expenses are based on the current advertising, sponsorship, trade shows and seminar hosting plans of the business;
  - current plans include sponsorship of industry events, partnering with industry leaders in promoting, HR events, hosting of webinars and promotion through social media platforms and web search engines; and
  - ELMO expects to hire an additional 15 people into sales and marketing roles at remuneration packages consistent with the current staffing structure to drive revenue growth.
- Research and development expenses
  - research and development expenses reflect a proportion of software developer wages and on-costs spent on research and maintenance, with the remainder of costs being capitalised as an intangible asset. The forecast expense is based on a proportion of costs capitalised consistent with to the recent historical average of 85%.
- General and administration expenses
  - general and administration costs are forecast to increase in line with the overall growth of the business and are based on the current recent run-rates of general and administration expenses, adjusted for known or planned increases in expenditure;
  - incremental operating costs totalling \$1.4 million have been assumed by Management for additional costs required to operate as a publicly listed company;
  - one off IPO costs of \$1.8 million have been included in the Statutory Forecast Income Statement for FY17 (with the remaining \$1.6 million of costs directly applicable to the Offer offset against equity); and
  - includes additional costs to expand the infrastructure, primarily in relation to additional corporate head office headcount and additional office space, to support the expected growth of ELMO.

#### **4.13.2.4. Depreciation, amortisation and capital expenditure**

Depreciation and amortisation is based on the current depreciation/amortisation rates and estimated useful lives applied to property, plant and equipment, leasehold improvements, computer equipment and intangible assets, adjusted for planned capital expenditure and disposals.

New or planned capital expenditure, which is predominantly the capitalisation of employee costs relating to the development and enhancement of software and capitalisation of direct sales commissions paid to sales and marketing employees, is amortised at rates consistent with similar existing assets of ELMO (three years for capitalised development costs and over the life of the contract for capitalised direct sales commissions).

Customer related intangible assets are amortised over a seven-year period from the time of acquisition. The Company regularly reviews the amortisation period for appropriateness as required under AAS.

The main categories of assets and related depreciation and amortisation rates / useful lives are disclosed in the accounting policies included in Section 10.

#### **4.13.2.5. Income tax**

Income tax is based on an effective tax rate of 30%, reflecting the current corporate tax rate in Australia.

#### **4.13.2.6. Cash flow**

Cash receipts on SaaS Revenue contracts are typically received annually and upfront. SaaS Revenue is forecast to grow through FY17 and FY18 which is expected to result in the cash receipts exceeding revenue in both forecast years.

This cash flow trend results in an EBITDA to operating cash flow conversion of over 100%.

#### **4.13.2.7. Working capital**

The Forecast Financial Information is based on the following working capital assumptions, which together with the growth in the business is expected to result in a net cash inflow:

- trading terms in line with historical trading for trade receivables and trade payables; and
- an increase in income received in advance in line with the growth in new contracts secured.

#### **4.13.2.8. Capitalised development costs and sales commissions**

Capital expenditure relating to the capitalisation of employee costs with respect to the development and enhancement of software is based on ELMO's forecast development expenditure being capitalised consistent with actual historical rates and the capitalisation of employee sales commissions relating directly to new contracts secured, is based on ELMO's revenue forecast.



## 4 Financial information

### 4.13.3 Management discussion and analysis of Pro forma FY16 Income Statement compared to Pro forma FY17 Forecast Income Statement

FIGURE 56: PRO FORMA INCOME STATEMENT FY16 COMPARED TO FY17

A\$('000)		Pro forma Historical	Pro forma Forecast	Percentage Change
June year end	Notes	FY16	FY17	%
SaaS Revenue		12,588	15,706	24.8%
Other income	1	901	652	(27.6%)
<b>Total revenue</b>		<b>13,488</b>	<b>16,358</b>	<b>21.3%</b>
Cost of sales	2	(1,242)	(1,593)	28.3%
<b>Gross profit</b>		<b>12,247</b>	<b>14,764</b>	<b>20.6%</b>
Sales and marketing		(4,435)	(6,462)	45.7%
Research and development	3	(437)	(435)	(0.5%)
General and administration		(5,808)	(7,007)	20.6%
<b>Total operating expenses</b>		<b>(10,680)</b>	<b>(13,904)</b>	<b>30.2%</b>
<b>EBITDA</b>		<b>1,567</b>	<b>860</b>	<b>(45.1%)</b>
Depreciation		(92)	(236)	157.8%
Amortisation		(1,576)	(2,124)	34.7%
<b>EBIT</b>		<b>(101)</b>	<b>(1,499)</b>	<b>1,383.3%</b>

Key Operational Metrics <sup>4</sup>	FY16	FY17
<b>Financial metrics</b>		
Cash receipts ('\$000)	15,704	19,035
Cash receipts as a % of revenue	116.4%	116.4%
Pro forma revenue growth (%)	35.8%	21.3%
SaaS revenue growth (ex. Techni Works) (%)	50.1%	30.8%
Recurring revenue (%)	93.3%	96.0%
Revenue run rate (%)	n.a.	96.8%
Pro forma gross margin (%)	90.8%	90.3%
Pro forma EBITDA margin (%)	11.6%	5.3%
Sales and marketing spend % of revenue	32.9%	39.5%
General and administration spend % of revenue	43.1%	42.8%
R&D spend % of revenue	15.6%	15.2%
<b>Operational metrics</b>		
Number of customers (Ex. Techni Works)	358	455
Revenue per SaaS customer (ex. Techni Works) ('\$000)	31.6	32.5
Modules per customer (Ex. Techni Works)	2.22	2.29
Employees	80	106

Notes:

1. Other income is professional fees in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants.
2. Cost of sales comprises the wages and salaries of employees who undertake software implementation work as well as the costs associated with web hosting services. Cost of sales does not include other indirect costs nor does it include an allocation of overheads.
3. Research and development expenses relate to research activity and is the portion of wages and salaries of software developers that is expensed.
4. Unless specified please refer to Figure 42 for the notes relating to this Section 4.

#### 4.13.3.1. Revenue and gross profit

Revenue is forecast to grow 21.3% from \$13.5 million in FY16 to \$16.4 million in FY17. The FY17 forecast revenue is underpinned by unaudited SaaS revenue achieved in the last 12 months to 31 March 2017 of \$15.2 million, which represents 97% of the forecast SaaS revenue for FY17. Of the total revenue 96% relates to recurring licence fees.

Within total revenue, SaaS revenue (excluding Techni Works) is forecast to grow 30.8% from \$11.3 million in FY16 to \$14.8 million in FY17. The growth is expected to be driven by:

- the full year impact of new customers contracted in FY16;
- the partial impact of new customers contracted in 1H17;
- new customers expected to be contracted in 2H17 through an identified pipeline of targets leveraged off:
  - the expected hire of four additional business development managers during the year; and
  - enhanced ELMO brand awareness through an increase in industry partnerships, trade show exhibits and sponsorships.
- An increase in the average module per customer from 2.22 as at 30 June 2016 to 2.29 as at 30 June 2017 driven by the roll out of new modules including the Succession and HR Core modules as well as increased penetration of the Recruitment, Onboarding and Performance modules.

ELMO's Other income is forecast to decline by \$0.2 million, or 27.6% from \$0.9 million in FY16 to \$0.7 million in FY17 as ELMO focusses on growth of SaaS license fee revenue and securing new customers.

Gross profit is forecast to increase by 20.6% from \$12.2 million in FY16 to \$14.8 million in FY17 as a result of the increase in revenue. The gross margin is forecast to remain consistent at 90-91%.

#### 4.13.3.2. Operating expenses

Total operating expenses are forecast to grow 30.2% from \$10.7 million in FY16 to \$13.9 million in FY17.

The movement in operating expenses is expected to be primarily driven by:

- the Company's strategic decision to invest in future growth by expanding the sales and marketing team, the R&D team and infrastructure with a net headcount increase of 26 expected by 30 June 2017;
- an increase in sales commissions paid as a result of securing new contracts with a forecast net increase of 97 customers; and
- increased administrative costs due to an increase in Sydney office space.

The FY17 forecast R&D spend in the income statement is expected to remain consistent with the spend in FY16. However the total cash spend, including amounts capitalised to the balance sheet, is forecast to increase by \$0.4 million from \$2.1 million in FY16 to \$2.5 million in FY17. As a percentage of revenue, the total R&D spend is forecast to slightly decrease through the period from 15.6% in FY16 to 15.2% in FY17 due to comparatively higher revenue growth of 21.3%. The higher revenue growth was in part due to ELMO's investment in the development of modules in previous years.

Statutory forecast operating costs for FY17 includes non-recurring IPO costs, and the pro rata impact of other pro forma adjustments, and is therefore not directly comparable to Pro forma Historical FY16.

#### 4.13.3.3. EBITDA

EBITDA is forecast to decline 45.1% from \$1.6 million in FY16 to \$0.9 million in FY17 as a result of forecast revenue growth of 21.3% being outstripped by the total expenses (including cost of sales) growth of 30.0%. This equates to a decrease in the EBITDA margin from 11.6% to 5.3%.

Whilst EBITDA is expected to decline in FY17 as a result of ELMO's commitment to investing in headcount, particularly sales focused staff (with sales and marketing costs expected to increase as a percentage of revenue from 32.9% in FY16 to 39.5% in FY17), the R&D function and company infrastructure. ELMO expects these investments to have a deferred benefit and contribute to future revenue growth which will have a positive impact on EBITDA.

#### 4.13.3.4. EBIT

ELMO expects to incur a \$1.5 million loss at the EBIT level in FY17 as a result of the forecast reduction in EBITDA explained above, together with anticipated higher amortisation expense, which is forecast to increase 34.7%, from \$1.6 million in FY16 to \$2.1 million in FY17, due primarily to the forecast increase in the headcount of software developers and new customers resulting in an increase in sales commissions on contracts with a term greater than one year, which are capitalised.

## 4 Financial information

FIGURE 57: SUMMARY PRO FORMA CASH FLOW STATEMENT FY16 COMPARED TO FY17

A\$('000)		Pro forma Historical	Pro forma Forecast	Percentage Change
June year end	Notes	FY16	FY17	%
<b>EBITDA</b>		<b>1,567</b>	<b>860</b>	<b>(45.1%)</b>
Non-cash items in EBITDA		277	99	(64.3%)
Changes in working capital		1,217	1,981	62.7%
<b>Operating cash flow</b>		<b>3,061</b>	<b>2,940</b>	<b>(3.9%)</b>
Capitalised development costs and sales commissions		(2,259)	(2,626)	16.3%
Other capital expenditure		(278)	(237)	(14.8%)
<b>Free cash flow before investing, financing and tax</b>		<b>524</b>	<b>77</b>	<b>(85.3%)</b>
Operating cash flow conversion	1	195.3%	341.7%	
Free cash flow conversion	2	33.4%	9.0%	

Notes:

1. Operating cash flow is defined as Operating cash flow divided by EBITDA
2. Free cash flow is defined as Free cash flow divided by EBITDA

### 4.13.3.5. Change in working capital

Working capital through FY17 is forecast to further decrease resulting in a cash inflow of \$2.0 million. The inflow is expected primarily from an increase in deferred income, given the expected increase in cash receipts from \$15.7 million in FY16 to \$19.0 million in FY17, partially offset by an expected increase in trade receivables.

### 4.13.3.6. Capitalised development costs and sales commissions

Capitalised development costs and sales commissions are forecast to increase 16.3%, from \$2.3 million in FY16 to \$2.6 million in FY17, which is predominantly driven by the increased number of software development employees and higher sales. As a percentage of revenue, the R&D cost is expected to be 15.2% in FY17 which is consistent with FY16 (15.6%).

### 4.13.3.7. Other capital expenditure

Other capital expenditure is forecast to stay relatively flat from FY16 to FY17.

#### 4.13.4. Management discussion and analysis of Pro forma FY17 Forecast Income Statement compared to Pro forma FY18 Forecast Income Statement

FIGURE 58: PRO FORMA INCOME STATEMENT FY17 COMPARED TO FY18

A\$('000)		Pro forma Forecast		Percentage Change
June year end	Notes	FY17	FY18	%
SaaS Revenue		15,706	21,548	37.2%
Other income	1	652	853	30.9%
<b>Total revenue</b>		<b>16,358</b>	<b>22,402</b>	<b>36.9%</b>
Cost of sales	2	(1,593)	(1,883)	18.2%
<b>Gross profit</b>		<b>14,764</b>	<b>20,518</b>	<b>39.0%</b>
Sales and marketing		(6,462)	(8,620)	33.4%
Research and development	3	(435)	(565)	29.9%
General and administration		(7,007)	(8,649)	23.4%
<b>Total operating expenses</b>		<b>(13,904)</b>	<b>(17,835)</b>	<b>28.3%</b>
<b>EBITDA</b>		<b>860</b>	<b>2,684</b>	<b>211.9%</b>
Depreciation		(236)	(155)	(34.2%)
Amortisation		(2,124)	(2,631)	23.9%
<b>EBIT</b>		<b>(1,499)</b>	<b>(102)</b>	<b>(93.2%)</b>

Key Operational Metrics <sup>4</sup>	FY17	FY18
<b>Financial metrics</b>		
Cash receipts ('\$000)	19,035	25,725
Cash receipts as a % of revenue	116.4%	114.8%
Pro forma revenue growth (%)	21.3%	36.9%
SaaS revenue growth (ex. Techni Works) (%)	30.8%	39.5%
Recurring revenue (%)	96.0%	96.2%
Revenue run rate (%)	96.8%	83.1%
Pro forma gross margin (%)	90.3%	91.6%
Pro forma EBITDA margin (%)	5.3%	12.0%
Sales & marketing spend % of revenue	39.5%	38.5%
General & administration spend % of revenue	42.8%	38.6%
R&D spend % of revenue	15.2%	17.2%
<b>Operational metrics</b>		
Number of customers (ex. Techni Works)	455	569
Revenue per SaaS customer (ex. Techni Works) ('\$000)	32.5	36.3
Modules per customer (ex. Techni Works)	2.29	2.55
Employees	106	129

Notes:

1. Other income is professional fees in respect of non-standard implementation, configuration, training and integration fees as well as other revenue including government grants.
2. Cost of sales comprises the wages and salaries of employees who undertake software implementation work as well as the costs associated with web hosting services. Cost of sales does not include other indirect costs nor does it include an allocation of overheads.
3. Research and development expenses relate to research activity and is the portion of wages and salaries of software developers that is expensed.
4. Unless specified please refer to Figure 42 for the notes relating to this Section 4.

## 4 Financial information

### 4.13.4.1. Revenue and gross profit

Revenue is forecast to grow 36.9% from \$16.4 million in FY17 to \$22.4 million in FY18. The unaudited revenue for the month of March 2017 implies an annual recurring SaaS revenue of \$17.9 million (excluding other income), reflecting 83% of FY18 forecast revenue. Consistent with FY17 over 96% is expected to relate to recurring licence fees.

Revenue growth from FY17 to FY18 is expected to be driven by:

- the full year impact of a net 97 new customers which were contracted in FY17;
- the continued investment in the number of business development managers and account managers with a forecast increase of 10 new hires in FY18 who are expected to secure a net 114 additional SaaS customers. The forecast includes the assumption there will be a ramp up in securing new customers through FY18 after new hires are brought on. It is expected the full year benefit of new hires in FY18 will be achieved in FY19;
- continued investment in existing promotional activity through industry partnerships, sponsorships, trade exhibits and web search engines;
- an increase in the uptake of the Succession and HR Core modules by existing customers which is expected to be driven by the planned increase in the number of account managers and lead to an increase in the average modules per customer from 2.29 in FY17 to 2.55 in FY18; and
- growth in revenue generated from Techni Works customers through cross sell and upsell opportunities to ELMO modules.

ELMO's Other income is forecast to increase by \$0.2 million, or 30.9% from \$0.7 million in FY16 to \$0.9 million. The increase is expected to be driven by an increase in the volume of non-standard implementations, integrations, configuration and training as a result of the increase customer base of the business.

Gross profit is forecast to increase by 39.0% from \$14.8 million in FY17 to \$20.5 million in FY18 as a result of the increase in revenue. The gross margin is forecast to increase from 90.3% to 91.6%, as ELMO expects to be able to scale revenue ahead of additional implementation staff planned to be hired in FY17.

### 4.13.4.2. Operating expenses

Total operating expenses are forecast to grow 28.3% from \$13.9 million in FY17 to \$17.8 million in FY18.

The movement in operating expenses is expected to be primarily driven by:

- an increase in employee costs as a result of a planned increase headcount from 106 by 30 June 2017 to 129 by 30 June 2018, particularly the hire of additional business development and account managers (10), R&D software developers (13) and company infrastructure staff;
- increased marketing expenses through additional social media campaigns, increased online advertising, exhibits at trade shows and ELMO run seminars; and
- increased administrative costs due to an anticipated increase in the Melbourne office space and the full-year impact of the increase in the Sydney office space.

The R&D spend in the income statement is forecast to increase 29.9% from \$0.4 million in FY17 to \$0.6 million in FY18 as a result of the expected increase in headcount by 13. The overall R&D cash spend is forecast to increase by \$1.4 million from \$2.5 million in FY17 to \$3.9 million in FY18 also as a result of the expected increase in headcount. The increased headcount is expected to increase the percentage of R&D to revenue from 15.2% in FY17 to 17.2% in FY18.

### 4.13.4.3. EBITDA

EBITDA is forecast to grow from \$0.9 million in FY17 to \$2.7 million in FY18 as a result of forecast revenue growth of 36.9% compared to total expenses growth of 27.2%. This equates to an increase in the EBITDA margin from 5.3% to 12.0%.

The FY18 EBITDA is expected to improve as ELMO realises the benefits of the investment in sales and marketing expenditure in FY16 and FY17 and starts to demonstrate greater economies of scale with:

- sales and marketing costs as a percentage of revenue expected to decline slightly from 39.5% to 38.5%; and
- a forecast decline in general & administrative costs as a percentage of revenue from 42.8% to 38.6%.

### 4.13.4.4. EBIT

ELMO expects to almost break-even at the EBIT level and incur a marginal \$102,000 loss in FY18 as a result of the significant forecast increase in EBITDA explained above, notwithstanding higher amortisation expense, which is forecast to increase 23.9%, from \$2.1 million in FY17 to \$2.6 million in FY18, due primarily to the forecast increase in the headcount of software developers and new customers resulting in an increase in sales commissions on contracts with a term greater than one year, which are capitalised.

FIGURE 59: SUMMARY PRO FORMA CASH FLOW STATEMENT FY17 COMPARED TO FY18

A\$('000)		Pro forma Forecast		Percentage Change
June year end	Notes	FY17	FY18	%
<b>EBITDA</b>		<b>860</b>	<b>2,684</b>	<b>211.9%</b>
Non-cash items in EBITDA		99	99	–
Changes in Working Capital		1,981	3,321	67.7%
<b>Operating cash flow</b>		<b>2,940</b>	<b>6,104</b>	<b>107.6%</b>
Capitalised development costs and sales commissions		(2,626)	(4,006)	52.5%
Other capital expenditure		(237)	(180)	(24.0%)
<b>Free cash flow before investing, financing and tax</b>		<b>77</b>	<b>1,918</b>	<b>2389.8%</b>
Operating cash flow conversion	1	341.7%	227.4%	
Free cash flow conversion	2	9.0%	71.5%	

Notes:

1. Operating cash flow is defined as Operating cash flow divided by EBITDA
2. Free cash flow is defined as Free cash flow divided by EBITDA

#### 4.13.4.5. Change in working capital

Working capital in FY18 is forecast to decrease further resulting in a cash inflow of \$3.3 million. The increase in negative working capital is expected primarily from an increase in the level of income received in advance with expected cash receipts up from \$19.0 million in FY17 to \$25.7 million in FY18, partially offset by an increase in trade receivables.

#### 4.13.4.6. Capitalised development costs and sales commissions

Capitalised development costs and direct sales commissions are forecast to increase 52.5%, from \$2.6 million in FY17 to \$4.0 million in FY18, which is predominantly driven by the forecast hire of 13 additional software developers and five additional business development managers who are expected to help drive higher sales on which commissions are based.

### 4.14 Sensitivity analysis

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of ELMO, its Directors and Management. These estimates are also based on assumptions with respect to future business decisions which are subject to change.

Set out below is a summary of the sensitivity of the impact on the Forecast Financial Information of changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown.

Care should be taken in interpreting these sensitivities. In order to illustrate the likely impact on the Forecast Financial Information, the estimated impact of changes in each of the assumptions has been calculated in isolation from changes in the other assumptions and assumes a half-year impact for FY17 and a full year impact for FY18. In practice, changes in assumptions may offset each other or be additive and it is likely that the Group's Management would respond to any adverse changes in one item to seek to reduce the net effect on the Group's EBITDA and cash flow.

For the purpose of the analysis below, the effect of the changes in key assumptions on the FY17 pro forma forecast EBITDA of \$0.9 million and on the FY18 pro forma forecast EBITDA of \$2.7 million is set out in Figure 60 below.

FIGURE 60: SENSITIVITY ANALYSIS ON PRO FORMA FORECAST NPAT FOR FY17 AND FY18

Assumptions	Notes	Increase/decrease	FY17 pro forma NPAT impact	FY18 pro forma NPAT impact
Modules per customer	1	+/- 0.1	+/- \$0.3 million	+/- \$0.6 million
Growth in new customers		+/- 10	+/- \$0.1 million	+/- \$0.2 million
SaaS revenue growth (ex. Techni Works)		+/- 5%	+/- \$0.5 million	+/- \$0.7 million
Employee expense		+/-1%	+/- \$0.05 million	+/- \$0.1 million

Notes:

1. Modules per customer represents the volume of modules individual customers licence from ELMO.



## 4 Financial information

### 4.15 Dividend policy

The payment of a dividend by the Company is at the discretion of the Board and will be a function of a number of factors, including the general business environment, operating results and financial condition of the Company.

While it is the aim of the Company that, in the longer term, its financial performance and position will enable the payment of dividends, at the Prospectus Date, the Company does not intend, or expect, to declare or pay any dividends in the immediately foreseeable future, given that ELMO's focus will be on long term growth.



# 5 RISKS

# 5 Risks

This Section describes some of the potential risks associated with ELMO's business and the industry in which ELMO operates and risks associated with an investment in Shares. ELMO is subject to a number of risks which may, either individually or in combination, adversely impact ELMO's future operating and financial performance, investment returns and the value of the Shares. The occurrence or consequences of some of the risks described here are partially or completely outside of ELMO's control, or the control of the Directors and Management. ELMO does not purport to list every risk that may be associated with the business or the industry in which ELMO operates, or associated with an investment in Shares, now or in the future. The selection of risks has been based on an assessment of a combination of the probability of the risk occurring, the ability to mitigate the risk and the impact of the risk if it did occur. This assessment is based on the knowledge of the Directors as at the Prospectus Date. There is no guarantee or assurance that the risks will not change or that other risks or matters that may adversely affect ELMO's business, the industry in which it operates or an investment in the Shares, will not emerge.

There can be no guarantee that ELMO will achieve its stated objectives, deliver on its business strategy, or that the Forecast Financial Information or any forward looking statement contained in this Prospectus will be achieved or realised. You should note that past performance may not be a reliable indicator of future performance.

Before applying for Shares you should be satisfied that you have a sufficient understanding of the risks involved in making an investment in the Company and whether it is a suitable investment for you, having regard to your investment objectives, financial circumstances and taxation position. You should seek advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before investing in ELMO.

## 5.1 Business and Industry Risks

### 5.1.1 Failure to retain existing customers and attract new customers

The success of ELMO's business relies on its ability to attract new customers and to retain and increase revenue from existing customers.

ELMO primarily generates revenue through customers utilising modules on their platform by which customers typically pay annual subscription fees in advance. The majority of ELMO's contracts with customers run for three years. ELMO's customers have no obligation to renew their service offering when their contract term ends and ELMO cannot guarantee that all or any of its customers will renew their current service offering after the completion of their contract term. ELMO also cannot guarantee that it will successfully increase revenue from its existing customers through the ability to cross-sell other modules to the same customers. Accordingly, there is a risk that customers reduce or cease usage of ELMO's platform, or do not increase their product usage, which would result in a reduction, or limited growth, in the level of payments they make to ELMO including revenue characterised as recurring revenue.

The ability to retain existing customers and the capacity to attract new customers and keep these customers engaged in the product will be dependent on many factors including the capability, cost-effectiveness, pricing, customer support and value of ELMO's products compared to competing products. If customers do not continue to use ELMO's platform and do not increase their usage over time, and if new customers do not choose to use ELMO's platform, the growth in ELMO's revenue may slow, or decline, which will have an adverse impact on ELMO's operating and financial performance.

If fewer customers are retained then ELMO will generate less cash from its customers and will be required to fund the costs of servicing its remaining customers from its available cash resources (such liability is represented by the deferred revenue balance included on the balance sheet).

### 5.1.2 ELMO operates in a competitive industry

ELMO competes against other domestic and international talent management solution providers, both unified and point solution providers as well as legacy on-premise and manual paper-based systems. The talent management industry is rapidly evolving, highly fragmented and becoming increasingly competitive. Some of ELMO's existing and potential competitors have significantly more resources than ELMO does. ELMO faces the risk that:

- existing competitors could increase their market share through aggressive marketing campaigns, product research and development, strategic alliances with industry bodies, price discounting or acquisitions;
- ELMO's software products may fail to meet customers' expectations and ELMO may be unable to implement necessary changes to these products to satisfy those customers' expectations;
- ELMO may fail to increase adoption and usage of its solutions;
- ELMO may fail to meet customers' demands for new products in a timely manner;
- ELMO may fail to anticipate and respond to changing opportunities, technology, standards or customer requirements in the industry as quickly as ELMO's competitors;
- ELMO's competitors may enhance their product offering to improve their competitive positioning relative to ELMO by increasing the number of modules they offer. This could also mean that other talent management solution providers who typically focus on either larger enterprise customers or Small to Medium Enterprises (**SME**) customers, expand their focus to target the same mid-market customers that ELMO currently targets; and
- new market entrants into the HCM software market could develop talent management software solutions which compete with ELMO's product offering.

If any of these risks arise, ELMO may compete less effectively against competitors and it could reduce the Company's market share and ability to develop or secure new business which would have an adverse impact on ELMO's operating and financial performance.

### **5.1.3 Ability to attract and retain key personnel**

A perceived critical component of the success of the Company is the ongoing retention of key personnel, specifically, founder and CEO, Danny Lessem, and members of the management and product research and development teams.

There is a risk ELMO may not be able to attract and retain key personnel or be able to find effective replacements for those key personnel in a timely manner. The loss of such personnel, or any delay in their replacement, could have a significant negative impact on management's ability to operate the business and achieve financial performance targets and strategic growth objectives.

### **5.1.4 Pricing risk**

ELMO primarily generates revenue by charging annual subscription fees to its customers for the length of the contract which are based on both the type of module as well as the number of users per module. Upon completion of their contract, ELMO's customers may try to renegotiate contract terms for more favourable price discounts which, if capped, would result in a direct reduction in the payments they make to ELMO and have a negative impact on ELMO's financial performance. While ELMO may resist such attempts to renegotiate prices, business economics, market conditions or competitive forces may dictate such terms need to be accepted.

In addition, ELMO does not currently incorporate any annual price increase clauses into their contracts such as a price increase based on the level of consumer price index. As a result, ELMO is currently unable to pass on any potential cost increases it may face onto its customers. Consequently, any significant increase in costs that ELMO incurs could have a material adverse effect on ELMO's financial performance.

### **5.1.5 Reliance on ELMO's talent management software solutions and failure to adequately maintain and develop it**

ELMO's business model depends on ELMO's ability to continue to ensure that ELMO's customers are satisfied with the functionality of ELMO's talent management software solutions. The market for talent management software solutions is subject to evolving industry standards, changing regulations as well as ever changing customer needs, requirements and preferences. ELMO's success will depend on its ability to adapt and respond effectively to these changes on a timely basis. There is a risk that ELMO may fail to maintain its software platform adequately or that future updates may introduce errors and performance issues causing customer satisfaction to fall. Customer satisfaction may also fall as a result of perceived reductions in product quality, reliability, cost-effectiveness and customer support. Any of these factors may result in reduced sales and usage of ELMO's solutions, loss of customers, damage to ELMO's reputation and an inability to attract new customers.

### **5.1.6 Reliance on up-take of SaaS-based talent management software solutions**

ELMO's future revenue and growth depends on the increasing adoption of SaaS-based talent management software solutions. It may be difficult for ELMO to persuade potential customers to change their existing legacy on-premise, manual paper-based or point solution and adopt SaaS-based talent management solutions like ELMO's. If ELMO's solutions are not accepted and used by more mid-market organisations or if the market for talent management solutions fails to grow as expected, ELMO's platform could be adversely affected and revenue growth may slow, which could negatively impact ELMO's operating and financial performance.

### **5.1.7 Failure to effectively manage growth**

ELMO has experienced a period of considerable growth in both revenue, employee numbers and customer base. Based on ELMO's projections, ELMO expects further growth in the future which could place significant strain on current management, operational and finance resources as well as the infrastructure supporting ELMO's platform. ELMO's future success depends on its ability to effectively manage this growth. Failure to appropriately manage growth could result in failure to retain existing customers and a failure to attract new customers which could adversely affect ELMO's operating and financial performance.

### **5.1.8 Failure to realise benefits from product research and development**

Developing software and technology is expensive and often involves an extended period of time to achieve a return on investment. An important aspect of ELMO's business is to continue to invest in innovation and related product development opportunities. ELMO believes that it must continue to dedicate resources to ELMO's innovation efforts to develop ELMO's software and technology product offering and maintain the Company's competitive position.

ELMO may not however, receive benefits from these investments for several years or may not receive benefits from these investments at all. ELMO makes assumptions about the expected future benefits generated by investment in product research and development and the expected timeframe in which the benefits will be realised. These assumptions are subject to change and involve both known and unknown risks that are beyond the control of the Company and are thus subject to change. Any change to the assumptions may have an adverse impact on ELMO's ability to realise benefits from innovation and product development related costs.

### **5.1.9 Disruption or failure of technology and software systems**

ELMO and its customers are dependent on the performance, reliability and availability of ELMO's platform, data centres and communications systems (including servers, the internet, hosting services and the cloud environment in which ELMO provides its solutions). There is a risk that these systems may be adversely affected by disruption, failure, service outages or data corruption that could occur as a result of computer viruses, "bugs" or "worms", malware, internal or external misuse by websites, cyber-attacks or other disruptions including natural disasters, power outages or other similar events.

In part, some of these disruptions may be caused by events outside of ELMO's control, and may lead to prolonged disruption to ELMO's platform, or operational or business delays and damage to the Company's reputation. This could potentially lead to a loss of customers, legal claims by customers, and an inability to attract new customers, any of which could adversely impact ELMO's operating and financial performance.

## 5 Risks

### 5.1.10 Reliance on third party service providers

ELMO relies on certain contracts with third party service providers to facilitate the use of ELMO's solutions. In particular, ELMO relies on a third party service provider for the Company's cloud hosting services.

ELMO also relies on the use of third party service providers for system documentation, software layers and code management and monitoring and auditing the Company's IT infrastructure and network. Any failure or disruption to the service provided from the third party service providers that ELMO's business relies on to efficiently operate could negatively impact ELMO's operating and financial performance.

### 5.1.11 Loss or theft of data and failure of data security systems

ELMO's products involve the storage of customers' confidential and proprietary information including information regarding their employees. ELMO's business could be materially impacted by security breaches of ELMO's customers' data either by unauthorised access, theft, destruction, loss of information or misappropriation or release of confidential customer data. There is a risk that any measures taken may not be sufficient to prevent or detect unauthorised access to, or disclosure of, such confidential or proprietary information, and any of these events may cause significant disruption to ELMO's business and operations. This may also expose ELMO to reputational damage, regulatory scrutiny and fines, any of which could materially impact ELMO's operating and financial performance.

Furthermore, any security or data issues experienced by other SaaS companies globally could adversely impact customers' trust in SaaS solutions in general and could impact ELMO's ability to retain existing customers and attract new customers.

### 5.1.12 Platform capacity

The utilisation of customers' capacity on ELMO's platform can vary from time to time depending on business requirements. There is a risk that at any one time a spike in utilisation volumes could mean that demand for ELMO's solutions exceed the capacity of ELMO's platform and infrastructure capability. While such occurrences are considered unlikely, such occurrences could result in a service outage and loss of unsaved work.

Failure to manage these risks could result in dissatisfaction of ELMO's impacted customers, impose difficulty in attracting new customers as well as having an adverse impact on ELMO's operations and financial performance.

### 5.1.13 Protection of intellectual property

The value of ELMO's products is dependent on ELMO's ability to protect its intellectual property, including trademarks, copyright and moral rights. There is a risk that ELMO may be unable to detect the unauthorised use of intellectual property rights in all instances. Further, actions that ELMO takes to protect its intellectual property may not be adequate or enforceable and thus may not prevent the misappropriation of, or copying or circumvention of, ELMO's intellectual property and proprietary information. Breach of ELMO's intellectual property may result in the need for the Company to commence legal action, such as infringement or administrative proceedings, which could be costly, time consuming and potentially difficult to enforce in certain jurisdictions and may ultimately prove unfavourable to ELMO. If an alternate cost-effective solution is not available, or no solution is available, this could damage ELMO's brand which could adversely affect ELMO's financial performance. ELMO's failure to protect its intellectual property rights could have an adverse impact on ELMO's operating and financial performance.

### 5.1.14 Success of sales and marketing strategy

ELMO's future success is partly dependent on the realisation of benefits from investment spent on sales and marketing campaigns and initiatives. Promoting awareness of ELMO's brand and reputation is critical to ELMO's success as a SaaS, cloud-based talent management software solutions provider.

ELMO expects that sales and marketing investment will continue to increase as the business grows. ELMO may not, however receive benefits from these investments for several years or may not receive benefits from these investments at all. Failure to realise intended benefits from sales and marketing investment could negatively impact ELMO's ability to attract new customers and adversely impact ELMO's operating and financial performance.

### 5.1.15 Due diligence, warranty and integration risks associated with buying new businesses

ELMO has recently completed a strategic acquisition of Techni Works and may seek to undertake further acquisitions in the future, both domestically and globally. ELMO intends to integrate strategic acquisitions which includes the process of transitioning customers of the acquired business onto ELMO's platform. ELMO may also implement aspects of the acquired business or products to enhance ELMO's existing business.

Future expansion by acquisition may be affected by factors beyond ELMO's control (including without limitation, commercial or regulatory changes), which may result in there being limited or unsuitable acquisition opportunities at the relevant time. There can be no assurance that suitable future acquisition opportunities will arise or if they do arise that they will be able to be made on acceptable terms.

There is a risk that customers of acquired businesses do not successfully transition onto ELMO's platform, which may be due to their unwillingness to pay a higher price for ELMO's services, or do not believe there is an operational need to make the change. There is also a risk that the process of transitioning customers requires significantly more financial and management resources, or time to complete, than originally planned. In addition, there is a risk that the acquisitions may fail to meet ELMO's strategic and financial objectives, generate the synergies and benefits that ELMO expected, or provide an adequate return on the purchase price and resources invested in them. This may occur due to a variety of factors, including poor market conditions, poor integration of staff, staff losses, customer losses, technology impacts or other integration barriers.



In addition, while ELMO will undertake all reasonable and appropriate due diligence in respect of additional acquisition opportunities, there is a risk that warranties or indemnities cannot be obtained, that ELMO's due diligence and analysis may be incomplete or inaccurate, and that the benefits and synergies ELMO anticipates may not be realised due to a variety of factors. ELMO will seek to obtain customary warranties and indemnities from vendors of the acquired assets, however there is a risk that potential issues are uncovered subsequent to due diligence and that these risks cannot be fully mitigated by the warranties and indemnities in the sale and purchase agreements for those acquisitions. If an unforeseen liability arises in respect of which ELMO is not able to be indemnified, this may adversely affect the financial and operating performance of ELMO. There can be no assurance that any future acquisitions will enhance the investment returns of Shareholders.

Any of the above factors, either individually or in combination, may have an adverse impact on ELMO's operating and financial performance.

#### **5.1.16 Breach of third party IP rights**

There is a risk that third parties may allege that ELMO's solutions use IP derived by them or from their products without their consent or permission. ELMO may be the subject of claims which could result in disputes or litigation, which could result in the payment of monetary damages, cause delays and increase costs, which in turn could have an adverse impact on ELMO's operations, reputation and financial performance.

#### **5.1.17 Failure to consider changes in compliance and regulatory environment**

ELMO's customers rely on having accurate and up to date information available on their platform including ELMO's eLearning course content library. ELMO constantly monitors changes to the relevant regulatory and compliance legislation that affects its platform, eLearning course content library and the training programs the Company offers. There is a risk that ELMO fails to keep abreast of these changes and subsequently fails to make the necessary updates to ELMO's platform or fails to make the necessary updates in a timely manner which could have an adverse impact on ELMO's customer satisfaction and subsequently on ELMO's operations and financial performance.

#### **5.1.18 Country/region specific risks in new and/or unfamiliar markets**

ELMO has operations in overseas jurisdictions and is exposed to a range of different legal and regulatory regimes (such as New Zealand and Singapore). As ELMO expands its presence into new international jurisdictions, ELMO is subject to the risks associated with doing business in the relevant regions, which may have political, legal and economic instability or less sophisticated legal and regulatory systems and frameworks, including (i) unexpected changes in, or inconsistent application of, applicable foreign laws and regulatory requirements; (ii) less sophisticated technology standards; (iii) difficulties engaging local resources; and (iv) potential for political upheaval or civil unrest.

As ELMO enters newer and less familiar regions, there is a risk that ELMO may fail to understand the laws, regulations and business customs of these regions. There is a risk that ELMO could face legal, tax or regulatory sanctions or reputational damage as a result of any failure to comply with (or comply with developing interpretations of) applicable laws, regulations, codes of conduct and standards of good practice. This gives rise to risks including, but not limited to, labour practices, foreign ownership restrictions, tax regulation, difficulty in enforcing contracts, changes to or uncertainty in the relevant legal and regulatory regimes and other issues in foreign jurisdictions in which ELMO may operate. A breach in any of these areas could result in fines or penalties, the payment of compensation or the cancellation or suspension of ELMO's ability to carry on certain activities or product offerings, could interrupt or adversely affect parts of ELMO's business and may have an adverse effect on ELMO's operating and financial performance.

#### **5.1.19 Revenue recognised throughout term of customer contracts**

ELMO recognises revenue over the term of the agreement with its customers which are typically three years in length. ELMO invoices customers annually, in advance and recognises revenue monthly on a pro-rated basis throughout the term of the contract. As a result, most of the revenue realised in any given period relates to agreements entered into during previous periods. Consequently, a shortfall in demand for ELMO's solutions or losses in the existing customer base may not be reflected in the revenue results of that period but are likely to negatively impact revenue in subsequent periods. Furthermore, ELMO may not be able to fully adjust their cost structure to reflect the reduced revenue. Accordingly, the effect of a shortfall in revenue from ELMO's platform may not be fully reflected in the financial performance until future periods.

#### **5.1.20 Foreign exchange risk**

ELMO's financial statements are presented in Australian Dollars. Although only a small portion of current sales revenue is denominated in currencies other than the Australian Dollar, this portion may increase over time as ELMO continues to grow and to expand into overseas jurisdictions. Future changes in the exchange rates in the jurisdictions in which ELMO operates may adversely impact ELMO's operating and financial performance.

## **5.2 General risks of an investment in Shares**

### **5.2.1 Price of Shares**

Once ELMO becomes a publicly listed company on ASX, ELMO will become subject to general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in ELMO's share price that are not explained by ELMO's fundamental operations and activities.

The price at which Shares are quoted on ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the Offer Price. There is no assurance that the price of the Shares will increase following quotation on ASX, even if ELMO's earnings increase.

Some of the factors which may adversely impact the price of the Shares include, but are not limited to, the number of potential buyers or sellers of Shares on ASX at any given time, fluctuations in the domestic and international markets for listed securities, general economic conditions including interest rates, inflation rates, exchange rates, commodity prices, changes to government fiscal, monetary or regulatory policies and settings, changes in legislation or regulation, inclusion in or removal from market indices, recommendations by brokers or analysts, global hostilities, tensions and acts of terrorism, the nature of the markets in which ELMO operates and general operational and business risks.

Deterioration of general economic conditions may also affect ELMO's business operations, and the consequent returns from an investment in Shares.



# 5 Risks

## 5.2.2 Liquidity of Shares

There has been no public market in the Shares prior to the Offer. Once the Shares are quoted on ASX, there can be no guarantee that an active trading market for the Shares will arise or that the price of the Shares will increase. There may be relatively few prospective buyers or sellers of the Shares on ASX at any given time.

Upon completion of the Offer, the Existing Shareholders of the Company will hold approximately 76.9% of the total issued capital of the Company. Of these Shares, 100% are expected to be the subject of escrow for 24 months from Admission. Further details of the escrow arrangements are set out in Section 7.7.

During the relevant escrow period the existence of such escrow arrangements may adversely affect the market price of Shares. Also, following the end of the relevant escrow period, a significant sale of Shares by the Escrowed Shareholders, or the perception that such sales might occur following the relevant escrow period, could adversely affect the market price of the Shares.

## 5.2.3 General economic conditions

The general economic climate in which ELMO operates may experience changes, which may adversely affect ELMO's operating and financial performance. Factors that may influence to the general economic climate include, but are not limited to:

- i. changes in government policies, taxation and other laws;
- ii. future demand for HCM technology, software or products;
- iii. future demand for stocks in SaaS companies;
- iv. the strength of the equity and share markets in Australia and throughout the world;
- v. changes in investor sentiment toward particular market sectors;
- vi. movement in, or outlook on, exchange rates, interest rates and inflation rates;
- vii. industrial disputes in Australia and overseas;
- viii. financial failure or default by an entity with which the Company may become involved in a contractual relationship; and
- ix. natural disasters, social upheaval or war.

## 5.2.4 Inability to pay dividends or make other distributions

The ability for future dividends or other distributions to be paid by ELMO will be contingent on its ability to generate profits.

Furthermore, to the extent that ELMO pays any dividends, the ability to offer fully franked dividends is contingent on making taxable profits. Taxable profits may be volatile, making the payment of dividends unpredictable.

The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances. Shareholders should also be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on the individual tax position of each Shareholder.

## 5.2.5 Risk of Shareholder dilution

ELMO in the future, may wish to elect to issue Shares or engage in capital raisings to fund acquisitions that the Company may decide to make. While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders at the time may be diluted as a result of such issues of Shares and capital raisings.

## 5.2.6 Taxation changes

An investment in Shares involves tax considerations which differ for each Shareholder dependent on their individual financial affairs. Each prospective investor is encouraged to seek independent financial advice about the consequences of acquiring shares, pursuant to the offer, from a taxation viewpoint and generally.

Changes in tax law (including goods and services taxes and stamp duties), or changes in the way taxation laws are interpreted, may impact ELMO's tax liabilities or the tax treatment of a Shareholder's investment. In particular, both the level and basis of taxation may change.

To the maximum degree permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

## 5.2.7 Australian Accounting Standards

Australian Accounting Standards are set by the AASB and are outside ELMO's control and the control of the Directors. The AASB is due to introduce new or refined Australian Accounting Standards during the period from 2017 to 2018, which may affect future measurement and recognition of key statement of profit or loss and other comprehensive income, and statement of financial position items, including revenue and receivables. There is also a risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key statement of profit or loss and other comprehensive income, and statement of financial position items, including revenue and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could adversely affect the financial performance and position reported in ELMO's consolidated financial statements.

#### **5.2.8 Legal and regulatory changes**

Laws and regulations may be adopted with respect to the Company's products in relation to issues such as user privacy, intellectual property, information security, the content and quality of products and services, which could limit ELMO's proposed scope of activity.

#### **5.2.9 Litigation risk**

In the ordinary course of business, ELMO may be involved in litigation disputes from time to time. Litigation disputes brought by third parties; including but not limited to customers, suppliers, business partners and employees may adversely impact the financial performance and industry standing of the business, in the case where the impact of legal proceedings is greater than or outside the scope of the Company's insurance.

#### **5.2.10 Force majeure events**

Events may occur within or outside Australia that could impact upon the Australian economy, the Company and the price of Shares. These events are outside ELMO's control and include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for ELMO's products and its ability to conduct business. ELMO has only a limited ability to insure against some of these risks.

#### **5.2.11 The CEO will retain a significant holding**

On Completion, the CEO of ELMO, Danny Lessem, will hold 22.1% of the Shares non-directly through Lessem Trading Pty Ltd. This significant shareholding may allow Danny to exercise some influence over the result of matters relating to ELMO. This may include matters submitted to meetings of shareholders, on which he can vote, in addition to the appointment of Directors and new management. However, it is noted that other Existing Shareholders will also retain significant holdings and could exert a similar influence over the result of matters relating to ELMO. In any case, the Directors do not expect any single Shareholder to control ELMO on Completion (based on the definition of 'control' in section 50AA of the Corporations Act).

# 6





## KEY PEOPLE, INTERESTS AND BENEFITS



## 6.1 Board of Directors

The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.


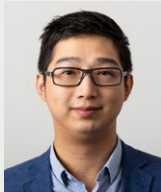


TABLE 1: BOARD OF DIRECTORS

Director	Experience
<b>James (Jim) McKerlie</b> <i>Chairman and Independent Non-executive Director</i> 	<p>Mr Jim McKerlie is the Chairman and an independent Non-executive Director of ELMO. He has over 30 years of experience across digital, media, technology, energy and professional services industries.</p> <p>Jim is currently the Chairman of Manalto Limited, Lithium Consolidated Minerals Exploration Limited and Bambu Digital. Jim previously served as the Chairman of Drillsearch Energy prior to it being acquired by Beach Energy (BPT.ASX), where he currently serves as an independent Non-executive Director. In addition, Jim has held senior roles as Partner in Charge at Deloitte Touche Tohmatsu, Managing Partner at KPMG, Chairman of onthehouse.com.au, Executive Chairman of Bullseye and Chairman of Acer Energy and Ambassador Energy.</p> <p>Jim holds a Bachelor of Economics and a Diploma in Financial Management from the University of New England. He is a fellow of the Institute of Chartered Accountants, Australian Institute of Company Directors and Institute of Management Consultants.</p>
<b>Danny Lessem</b> <i>CEO and Executive Director</i> 	<p>Mr Danny Lessem is the CEO, Executive Director and co-founder of ELMO.</p> <p>Danny is responsible for leading the development and execution of the Company'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 Company's operations and has been critical to the success of ELMO, including the strategy underpinning the development of the Company's full suite of talent management software solutions.</p> <p>Danny has extensive experience in the technology industry having led SaaS companies for over 15 years in senior roles, including Compu Technologies where he was the CEO and was responsible for overseeing the transition of the Company's primary business from a digital agency to an eLearning content provider.</p> <p>Danny holds a Bachelor of Laws (LL.B.) and Bachelors of Arts and Law from the University of Witwatersrand, South Africa.</p>
<b>David Hancock</b> <i>Independent Non-executive Director</i> 	<p>Mr David Hancock is an independent Non-executive Director of ELMO. He has over 25 years experience in financial services and a variety of governance roles.</p> <p>David is currently Chairman of Freedom Insurance Group Limited (FIG.ASX), Chairman of Finclear Pty Limited, an ASX general and clearing participant, Non-executive Director at Tower Insurance (TWR.ASX) and Non-executive Director and Chairman of the Audit and Risk Committee at Afterpay (AFY.ASX).</p> <p>David was the Chief Executive Officer at Tower Insurance (TWR.ASX/NZX).</p> <p>Prior to this, David has been an Executive General Manager at the Commonwealth Bank (CBA.ASX) and was Managing Director and Head of Asia/Australia/Japan Equities for JP Morgan.</p> <p>David is a member of the Australian Institute of Company Directors (GAICD) and holds a Bachelor of Business from the Queensland University of Technology (QUT).</p> <p>David lives in Sydney and is married and has two teenage sons.</p>
<b>Trevor Lonstein</b> <i>CFO and Executive Director</i> 	<p>Mr Trevor Lonstein is the CFO and Executive Director of ELMO and joined the Company in 2014. Trevor has over 15 years of experience in accounting and finance.</p> <p>Trevor is responsible for all aspects of the accounting and finance function, from ensuring efficient, controlled and timely recording and reporting systems, to budgeting, forecasting, and cash flow analysis.</p> <p>Prior to joining ELMO, Trevor owned and operated Adrite Digital Colour Printing and held senior roles as Senior IT Project Manager at Allens Arthur Robinson, Ships Financial Controller at Orient Cruise Lines – MV Marco Polo and a career of over eight years in auditing with Deloitte Touche Tohmatsu's member firms in England and Australia.</p> <p>Trevor holds a Bachelor of Commerce (BCom) in Accounting and Finance from the University of Cape Town in South Africa and is a Fellow of the Institute of Chartered Accountants in England and Wales.</p>

## 6 Key People, Interests and Benefits

### 6.2 Key Management Team

TABLE 2: KEY MANAGEMENT TEAM

Executive	Experience
<b>Danny Lessem</b> <i>CEO and Executive Director</i>	See Section 6.1 above.
<b>Trevor Lonstein</b> <i>CFO and Executive Director</i>	See Section 6.1 above.
<b>Gordon Starkey</b> <i>Chief Operating Officer</i> 	<p>Mr Gordon Starkey is the Chief Operating Officer (COO) of ELMO and joined the Company in 2007. Gordon has extensive experience across enterprise SaaS solutions, including roles with responsibilities across general management, business development, product design, financial management and strategy.</p> <p>Gordon is responsible for overseeing ELMO's business development, sales and marketing, product and client services. Gordon is essential to driving the strategic direction of the Company and managing partnership alignment with ELMO's customers.</p> <p>Prior to joining ELMO as an eLearning/LMS Consultant, Gordon served in various teaching, consulting and research roles at Macquarie University.</p> <p>Gordon holds a Bachelor of Business Administration (Hons) and a Bachelor of Psychology from Macquarie University.</p>
<b>Samuel Sun</b> <i>Chief Technology Officer</i> 	<p>Mr Samuel Sun is the Chief Technology Officer (CTO) of ELMO and joined the Company in 2010. Samuel has over 10 years of experience in software development roles.</p> <p>As CTO at ELMO, Samuel is responsible for setting the overall direction for the organisation's software and technology, and manages the strategy, architecture, engineering, design, governance and information security functions of ELMO's solutions and platform.</p> <p>Prior to joining ELMO as a Research and Technical Development Manager, Samuel was a Lead Developer at Scholani Education College and a Software Developer at IBM.</p> <p>Samuel holds a Masters in Information Technology from the University of NSW and a Bachelor of Telecommunication Engineering from Tongji University, China.</p>
<b>Monica Watt</b> <i>General Manager Human Resources</i> 	<p>Mrs Monica Watt is General Manager Human Resources at ELMO. Monica has over 10 years of experience working across compliance and human resource roles.</p> <p>Monica is responsible for optimising the business performance through innovation and people engagement and elevating team performance through innovative leadership. Monica has a broad range of experience in leading organisational transformations, driving large scale growth, talent acquisition, leadership development, and succession planning.</p> <p>Prior to joining ELMO, Monica was previously Senior Compliance Manager at Open Colleges and Instructional Designer for SkillsDMC, Transpacific Industries and TAFE NSW. She is also currently appointed as Officer Commanding of 204 Army Cadet Unit, Timor Barracks, Dundas, and holds the rank of Captain (AAC) in the Australian Army Cadets.</p> <p>Monica holds a Bachelor of Commerce, Human Resources from Deakin University, a Graduate Diploma in Management from Australian Institute of Business, Graduate Certificate in Management from Charles Sturt University and is currently working towards an MBA in Human Resources from Charles Sturt University. In addition, Monica also has several TAFE NSW Qualifications, Diplomas and Certificates.</p>
<b>Darryl Garber</b> <i>Head of Corporate Development and Strategy</i> 	<p>Mr Darryl Garber is Head of Corporate Development and Strategy at ELMO and joined the Company in 2011. Darryl has over seven years of experience in sales, marketing, corporate finance and management.</p> <p>Darryl is responsible for sourcing, evaluating and executing ELMO's growth strategy and initiatives, which involves financing activities, expansion opportunities, mergers and acquisition and go-to-market products.</p> <p>Darryl holds a Graduate Diploma in Applied Finance from Kaplan University and an MBA (Dean's List) from Bond University.</p>



### 6.3 Interests and benefits

This Section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of ELMO;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- Underwriter to the Offer or financial services licensee named in the Prospectus as a financial services licensee involved in the Offer,

holds as at the Prospectus Date, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such person for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

#### 6.3.1 Interests of advisers

The Company has engaged the following professional advisers:

- Blackpeak Capital Pty Ltd has acted as financial adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately \$660,000 (excluding disbursements and GST) for these services;
- Wilsons has acted as Lead Manager and Underwriter to the Offer. ELMO has paid, or agreed to pay, the Lead Manager and Underwriter the fees described on Section 9.4.3.1. for these services;
- Norton Rose Fulbright Australia has acted as Australian legal adviser to the Company in relation to the Offer (excluding in relation to taxation and stamp duty matters). ELMO has paid, or agreed to pay, approximately \$215,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Norton Rose Fulbright Australia for other work in accordance with its time-based charge-out rates; and
- Deloitte Corporate Finance Pty Limited has acted as the Investigating Accountant and has prepared the Investigating Accountant's Report for inclusion in the Prospectus, and has also performed due diligence enquiries in relation to the Financial Information. The Company has paid, or agreed to pay, approximately \$198,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Deloitte Corporate Finance Pty Limited for other work in accordance with their normal time-based charge-out rates; and
- Deloitte Tax Services Pty Ltd has acted as tax adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately \$48,000 (plus GST) for these services to the Prospectus Date. Further amounts may be paid to Deloitte Tax Services Pty Ltd for other work in accordance with their normal time-based charge-out rates.

#### 6.3.2 Interests and compensation of directors

##### 6.3.2.1 CEO compensation

Danny Lessem is employed in the position of CEO of ELMO. Conditional on Admission, from 1 July 2017, Danny will be entitled to an annual base remuneration of \$500,000 (inclusive of superannuation), which includes payment in respect of all services in connection with holding office as an Executive Director.

Either Danny or ELMO may terminate the employment contract on six months' written notice. ELMO may require Danny to work for part or all of this notice period and/or pay Danny an amount in lieu of any unworked portion of the notice period (based on his base remuneration). In the event of serious misconduct or other specific circumstances warranting summary dismissal, ELMO may terminate Danny's employment contract immediately by notice in writing and without payment in lieu of notice.

Upon the termination of Danny's employment contract, he will be subject to a restraint period of up to twelve months. ELMO may elect to reduce the restraint period, or eliminate the period in its entirety. The enforcement of the restraint period clause is subject to all usual legal requirements.

Danny is entitled to participate in the Company's incentive arrangements, as determined by the Board.

Danny has agreed with the Board that for FY18 he will not participate in any short term incentive plan or long term incentive program. Following this period, the Board may determine Danny should receive appropriate incentive arrangements, which includes payments in respect of all services in connection with holding office as an Executive Director.

##### 6.3.2.2 CFO compensation

Trevor Lonstein is employed in the position of CFO of ELMO. Conditional on Admission, from 1 July 2017, Trevor will be entitled to an annual base remuneration of \$300,000 (inclusive of superannuation).

Trevor will be eligible to receive a cash bonus to be determined by the Board for each financial year ending after 30 June 2017. Payment of the cash bonus will depend on ELMO's performance and Trevor's achievement of certain key performance indicators, or as otherwise decided by the Board, regardless of whether Trevor meets these performance indicators.



## 6 Key People, Interests and Benefits

As part of a long term incentive package, Trevor is also eligible to participate in the SEEP and HPEP (see below).

Either Trevor or ELMO may terminate the employment contract on six months' written notice. ELMO may require Trevor to work for part or all of this notice period and/or pay Trevor an amount in lieu of any unworked portion of the notice period (based on his base remuneration). In the event of serious misconduct or other specific circumstances warranting summary dismissal, ELMO may terminate Trevor's employment contract immediately by notice in writing and without payment in lieu of notice.

Upon the termination of Trevor's employment contract, he will be subject to a restraint period of up to twelve months. ELMO may elect to reduce the restraint period, or eliminate the period in its entirety. The enforcement of the restraint period clause is subject to all usual legal requirements.

In addition to his remuneration package outlined above, the Board has agreed to pay Trevor a one-off cash bonus of \$30,000 on Admission.

### 6.3.2.3 Non-executive Director 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 Non-executive Director as remuneration for their services as a Director. 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 Company in general meeting.

This amount has been fixed by the Company at \$750,000 per annum (inclusive of superannuation). Any change to that aggregate annual sum needs to be approved by Shareholders. The aggregate sum does not include any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board.

Annual Non-executive Directors' fees currently agreed to be paid by the Company are \$250,000. Chairman and independent Non-executive Director, Jim McKerlie, will receive \$150,000 (inclusive of superannuation) and independent Non-executive Director, David Hancock, will receive \$100,000 (inclusive of superannuation).

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

If a Director renders or is called on to perform extra services or to make any special exertions in connection with the affairs of the Company, the Directors may arrange for special remuneration to be paid to that Director, either in addition to or in substitution for that Director's remuneration set out above.

There are no contractual redundancy or retirement benefit schemes for Non-executive Directors, other than statutory superannuation contributions.

### 6.3.2.4 Deeds of access, indemnity and insurance for Directors

ELMO has entered into deeds of access, indemnity and insurance with each Director that contains the rights of access to certain books and records of ELMO on certain conditions for a period of seven years after the Director ceases to hold office. This seven year period can be extended where a claim arises within the seven year period.

Pursuant to the Constitution, ELMO may indemnify Directors and officers, past and present, against liabilities that arise from their position as a Director or officer allowed under law. Under each deed of access, indemnity and insurance, ELMO indemnifies the Directors to the maximum extent permitted by law against any liability incurred, including liability arising from negligence, breach of statutory duty or for any other reason, and reasonable legal costs on a solicitor/client basis in connection with any claim (on an after tax basis) that is due and payable by the Director, in connection with any alleged or actual act, omission or other conduct (including any misleading statement, misstatement, mistake, neglect or breach of duty) by the Director as a director of ELMO.

This indemnity is subject to certain limitations:

- it only applies to the extent ELMO is not precluded by law from indemnifying the Director;
- it does not apply to any liability connected with fraudulent, criminal or dishonest conduct, or a reckless or intentional breach of the Director's duties as a director of ELMO; and
- it will only apply to the extent approval of the members of ELMO is not needed under any applicable legislation unless that approval has been obtained.

If the Director incurs legal costs in circumstances where, depending on the outcome of a claim, the Company may be obliged to indemnify the Director for those legal costs, the Company must on request of the Director providing documentary evidence of those legal costs, lend to the Director an amount equal to those legal costs. The loan is ultimately repayable by the Director on conclusion of the claim, and may be set-off against any indemnity payment due by the Company to the Director.

Pursuant to the Constitution, ELMO may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law. Under the deed of access, indemnity and insurance, ELMO must obtain such insurance during each Director's period of office and for a period of seven years after a Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven year period expires.

### 6.3.2.5 Directors' interests in Shares

The Directors are not required under the Constitution to hold any Shares. On Completion, the Directors will hold the following Shares either personally, or through entities associated with the Director (excluding any Shares applied for under the Offer). Some of these Shares are expected to be subject to ASX escrow arrangements. Refer to Section 7.7 for further details.

The Directors' interests in Shares in ELMO as at the Prospectus Date are set out in Table 3 below. As at the Prospectus Date the Directors do not have an interest in any other securities of ELMO.

TABLE 3: DIRECTORS' INTERESTS IN SHARES

Shareholder	Shareholding immediately prior to the Offer (Shares)	Shareholding immediately prior to the Offer (%)	Shareholding post-IPO (shares)	Shareholding post-IPO (%)
James (Jim) McKerlie	Nil	Nil	Nil	Nil
Lessem Trading Pty Ltd (Danny Lessem)	12.0 million	28.8%	12.0 million	22.1%
Trevor Lonstein	0.4 million	1.0%	0.4 million	0.8%
David Hancock	Nil	Nil	Nil	Nil

Notes:

1. Share numbers have been rounded up.
2. Calculations exclude any Shares that may be issued by the Company under the Employee Gift Offer.
3. Directors may hold their interests in Shares shown above directly or indirectly through controlled entities.
4. The Directors are entitled to apply for Shares under the Offer. The above table does not take into account any Shares the Directors may acquire under the Offer. Final Directors' Shareholdings will be supplied to ASX at the time of Admission.

### 6.3.3 Employee incentive arrangements

#### 6.3.3.1. 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 key performance metrics.

Participation in the STI Plan will be determined at the discretion of the Board. Key performance metrics will generally relate to conditions that are within the control of the employee, for example divisional profit targets, strategic measures or such other conditions as ELMO may decide. Subject to the discretion of the Board, the STI Plan has been structured based on the overall remuneration structure to be adopted by ELMO such that 60% of an employee's total package will consist of fixed pay and 40% as performance pay, with the performance pay component divided such that 60% will be based on short term performance and 40% on long term performance. The quantum of any reward will be 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.

#### 6.3.3.2 Long-term incentive program (LTI Program)

ELMO has established both a Senior Executive Equity Plan (**SEEP**) and a High Performer Equity Plan (**HPEP**) as part of its LTI Program.

Equity incentives under the SEEP or the HPEP may be granted to employees (or such other person that the Board determines is eligible to participate) in respect of FY18 and beyond. 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.

##### *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.

## 6 Key People, Interests and Benefits

The key terms of the SEEP are set out in Table 4 below:

TABLE 4: KEY TERMS OF THE SEEP

<b>What is the performance period?</b>	The performance period will commence on 1 July of the year of grant and will conclude on 30 June three years later.
<b>What is the vesting period?</b>	<p>SEEP Options will vest in three tranches over a three year period from the grant date in the following proportions:</p> <p>Year 1 – 20%</p> <p>Year 2 – 30%</p> <p>Year 3 – 50%</p> <p>Vesting of each tranche will occur to coincide with the date of the release of the annual financial results or such other date determined by the Board, subject to the Board determining that the applicable vesting conditions have been satisfied.</p>
<b>Vesting condition</b>	Participants must be employed on the vesting date (subject to being a “Good Leaver” – see below).
<b>What are the performance conditions?</b>	The SEEP Options will be tested against a relative Total Shareholder Return ( <b>TSR</b> ) performance condition (see below). There will be no re-testing of the performance condition.
<b>How does the TSR performance condition work?</b>	<p>Performance will be tested relative to a peer group comprising the constituent companies in the S&amp;P/ASX 300 excluding mining and energy companies. The TSR of each company will be measured from the start of the performance period to the end of the performance period.</p> <p>Performance will be tested at the end of each vesting period (in years 1, 2 and 3) to determine the extent to which ELMO has satisfied the TSR performance condition.</p> <p>Vesting will apply against this target if the following is met:</p> <ul style="list-style-type: none"> <li>– 100% of the SEEP Options will vest if ELMO ranks at or above the 75th percentile;</li> <li>– straight line vesting of between 99% and 66% of the SEEP Options will occur if ELMO ranks between the 50th percentile and the 75th percentile;</li> <li>– 65% of the SEEP Options will vest if ELMO ranks at the 50th percentile; and</li> <li>– 0% of the SEEP Options will vest if ELMO ranks below the 50th percentile.</li> </ul>
<b>Exercise Period</b>	<p>Participants will have three years from vesting to exercise any vested SEEP Options.</p> <p>SEEP Options may only be exercised during a four week trading window after the release of the half year results, release of full year results, or the annual general meeting.</p> <p>The Board will retain discretion to impose disposal restrictions on the award of future SEEP Options.</p>
<b>What are the rights attaching to the Options?</b>	SEEP Options do not entitle participants to receive dividends or vote. Participants are not entitled to participate in new issues of Shares, including by way of bonus issues or rights issues.
<b>What happens on cessation of employment?</b>	<p>Employees who cease employment before the vesting date will forfeit their SEEP Options after 60 days of leaving ELMO, unless they are a “Good Leaver”, and subject to an overall Board discretion.</p> <p>A “Good Leaver” is an employee who ceases employment due to death, ill-health, or total permanent disability. A Good Leaver will be entitled to retain their SEEP Options on a pro-rata basis and those SEEP Options will remain on foot and be tested against the performance conditions as at the next vesting date.</p>
<b>What happens on a change of control?</b>	<p>In the event of either of the following circumstances:</p> <ol style="list-style-type: none"> <li>a takeover bid (as defined in the Corporations Act) to acquire any Shares becomes or is declared to be unconditional, irrespective of whether the takeover bid extends to Shares issued and allotted after the date of the takeover bid or not; or</li> <li>a merger by way of scheme of arrangement under the Corporations Act has been approved by a court of competent jurisdiction under section 411(4)(b) of the Corporations Act,</li> </ol> <p>the SEEP Options shall vest in full. The Board may determine that an event is not a Change of Control event for the purposes of the SEEP.</p>

#### *The High Performers Equity Plan (HPEP)*

The HPEP is intended to reward and retain management and high performing employees, linked to performance and providing an equity interest. Awards under the HPEP will be structured as an option to receive Shares at a future date subject to the recipient paying the exercise price (**HPEP Option**). The rules of the HPEP 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 HPEP are expected to be made annually (expected to be at the time of the annual remuneration review) and will be made to employees and such other persons that the Board considers eligible from time to time. To ensure that management has conditions that are personally achievable, it is intended that awards will be tested against measures personal to the employee (for example, the profit of a business unit). Any grants will be made subject to the ASX Listing Rules, to the extent applicable.

The key terms of the HPEP are set out in Table 5 below:

TABLE 5: KEY TERMS OF THE HPEP

<b>What is the performance period?</b>	The performance period will commence on 1 July of the year of grant and will conclude on 30 June the following year.
<b>What is the vesting period?</b>	HPEP Options will vest one year after the end of the performance period, subject to the personal performance conditions being satisfied.
<b>Vesting condition</b>	Participants must be employed on the vesting date (subject to being a “Good Leaver” – see below).
<b>What are the personal performance conditions?</b>	The personal performance condition will relate to conditions that are in the control of the employee, for example divisional profit targets, strategic measures or such other conditions as ELMO decides.
<b>Exercise Period</b>	Participants will have three years from vesting to exercise any vested HPEP Options.  HPEP Options may only be exercised during a four week trading window after the release of the half year results, release of full year results, or the annual general meeting.  The Board will retain discretion to impose disposal restrictions on the award of future HPEP Options.
<b>What are the rights attaching to the Options?</b>	Options do not entitle participants to receive dividends or vote. Participants are not entitled to participate in new issues of shares, including by way of bonus issue or rights issues.
<b>What happens on cessation of employment?</b>	Employees who cease employment before the vesting date will forfeit their HPEP Options after 60 days of leaving ELMO, unless they are a “Good Leaver”, and subject to an overall Board discretion.  A “Good Leaver” is an employee who ceases employment due to death, ill-health, total permanent disability. A Good Leaver will be entitled to retain their HPEP Options on a pro-rata basis and those HPEP Options will remain on foot and be tested against the performance conditions as at the next vesting date.
<b>What happens on a change of control?</b>	In the event of either of the following circumstances:  i. a takeover bid (as defined in the Corporations Act) to acquire any Shares becomes or is declared to be unconditional, irrespective of whether the takeover bid extends to Shares issued and allotted after the date of the takeover bid or not;  ii. a merger by way of scheme of arrangement under the Corporations Act has been approved by the Court under section 411(4)(b) of the Corporations Act,  the HPEP Options shall vest in full. The Board may determine that an event is not a Change of Control event for the purposes of the HPEP.

#### 6.3.3.3 Awards under the SEEP and HPEP

As at the Prospectus Date no awards have been made under the SEEP or HPEP. It is anticipated that the first awards under the SEEP and HPEP will be made around October 2017 and will reflect the performance period from 1 July 2017 to 30 June 2018.

## 6.4 Corporate governance

This Section 6.4 explains how the Board will oversee the management of the Company’s business. The Board is responsible for the overall corporate governance of the Company. The Board is responsible for, and has the authority to determine, all matters relating to strategic direction, policies, practices, management goals and the operations of ELMO.

ELMO has in place corporate governance practices which are formally embodied in corporate governance policies and codes adopted by the Board (**Policies**). The aim of the Policies is to ensure that ELMO is effectively directed and managed, risks identified, monitored and assessed, and appropriate disclosures made.

## 6 Key People, Interests and Benefits

The ASX Corporate Governance Council has developed and released corporate governance recommendations for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations (**ASX Recommendations**). The ASX Recommendations are not prescriptive, but guidelines. In preparing the Policies, the Directors considered the ASX Recommendations. The Directors incorporated the ASX Recommendations into the Policies to the extent the Directors considered the ASX Recommendations were appropriate taking into account ELMO's size, board structure, resources and activities.

Under the ASX Listing Rules, the Company will be required to provide a Corporate Governance Statement on its website or in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where the Company does not follow an ASX Recommendation, it must identify the ASX Recommendation that has not been followed and give reasons for not following it. Except as set out in Section 6.4.11 below, the Board does not anticipate that the Company will depart from the ASX Recommendations, however, it may do so in the future if it considers that such a departure would be reasonable.

Details of the Policies are summarised below. Copies of each of the Policies will be available from Admission at [www.elmotalent.com.au](http://www.elmotalent.com.au).

### 6.4.1 Board of Directors

Jim McKerlie and David Hancock are Non-executive Directors who are not a part of Management. The Board reviews the independence of each Director in light of interests disclosed to the Board regularly. The Board Charter sets out guidelines of materiality for the purpose of determining independence of Directors in accordance with the ASX Recommendations and includes a definition of independence that is largely based on that set out in the ASX Recommendations.

The Board considers qualitative principles of materiality for the purpose of determining "independence" on a case-by-case basis. The Board will consider whether there are any factors or considerations which may mean that the Director's interest, business or relationship could, or could be reasonably perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The Board considers that both Jim McKerlie and David Hancock are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of her or his judgement and each of them is able to fulfil the role of independent Non-executive Director for the purpose of the ASX Recommendations.

Given the guidelines adopted by the Company regarding the independence of Directors, Danny Lessem, as CEO of ELMO and a substantial shareholder in ELMO and Trevor Lonstein, as CFO of ELMO, are not considered by the Board to be independent.

Accordingly, as at Admission, the Board will consist of four directors, two of whom are independent Non-executive Directors and the other two of whom are Executive Directors and not independent.

### 6.4.2 Board Charter

The Board has adopted a Board Charter which sets out the responsibilities of the Board in greater detail, including the following responsibilities:

- providing leadership and approving the strategic objectives of the Company and establishing goals to promote their achievement;
- monitoring the operational and financial position and performance of the Company;
- establishing investment criteria including acquisitions and divestments, approving investments, and implementing ongoing evaluations of investments against such criteria;
- determining dividend policy and the amount, nature and timing of dividends to be paid (if any);
- providing oversight of the Company, including its control and accountability systems;
- monitoring compliance by the Company with its written policies and procedures, and its compliance with obligations at law;
- appointing and removing the CEO (or equivalent) and monitoring their performance; and
- approving the Company's remuneration framework for the CEO and other key management personnel (including senior and key officers of the Company) and the remuneration policy and succession plans for the CEO.

The composition of the Board, its performance and the appointment of new Directors will be reviewed from time to time by the Board, taking advice from external advisers where considered appropriate.

### 6.4.3 Board committees

In order to better manage its responsibilities, the Board has established an Audit and Risk Management Committee and a Nomination and Remuneration Committee. Each committee has adopted a charter approved by the Board, setting out its responsibilities. Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

The initial representatives on each committee will be:

- **Audit and Risk Management Committee:** David Hancock (Chair), Jim McKerlie and Danny Lessem.
- **Nomination and Remuneration Committee:** Jim McKerlie (Chair), David Hancock and Trevor Lonstein.

#### 6.4.4 Audit and Risk Management Committee

The purpose of the Audit and Risk Management Committee is to assist the Board in fulfilling its statutory, corporate governance and oversight responsibilities by monitoring and reviewing the integrity of financial statements, the effectiveness of internal financial controls, the independence, objectivity and performance of external auditors, and the policies on risk oversight and management.

The role and responsibilities, composition and membership requirements of the Audit and Risk Management Committee are documented in an Audit and Risk Management Committee Charter approved by the Board and include:

- making recommendations to the Board on the nomination and remuneration of external auditors;
- reviewing the performance and independence of the external audit;
- providing an independent, objective review of financial information provided by management to Shareholders and regulatory authorities;
- reviewing the adequacy and effectiveness of the Company policies and procedures which relate to risk management and compliance;
- maintaining an up-to-date understanding of areas where the Company is, or may be, exposed to risk and compliance issues and seek to ensure that management is effectively managing those issues; and
- assisting the Board in fulfilling its responsibilities relating to the risk management and compliance practices of ELMO.

Formal systems have been introduced for regular reporting to the Board on financial risks and compliance matters. The independent auditors will have a direct line of reporting to the Audit and Risk Management Committee and will have clear and open access to members of this Committee.

The Company does not currently have an internal audit function in place. The Audit and Risk Management Committee Charter puts in place processes to monitor the Company's financial and risk management procedures and the Board currently considers these processes appropriate for the size and level of operations of the Company.

The Audit and Risk Management Committee Charter provides that the committee should comprise, to the extent practicable given the size and composition of the Board from time to time, at least three members, a majority of whom are independent Directors. If the Company has three or more Non-executive Directors then the Company will, to the extent practicable, ensure that the Audit and Risk Management Committee is comprised entirely of Non-executive Directors. If this is not the case the Company will aim to ensure that the committee comprises as many Non-executive Directors as is practicable in the circumstances.

To the extent practicable, the chair of the Audit and Risk Management Committee will be an independent Director. The Committee will meet at least two times each financial year.

#### 6.4.5 Nomination and Remuneration Committee

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 and key executives, and ensuring that appropriate procedures exist to assess and review the performance of the Chairman, Non-executive Directors, senior executives (including senior and key officers of the Company) in Board committees and the Board as a whole.

The purpose of the remuneration function is to provide advice, recommendations and assistance to the Board in relation to the Company's remuneration policies and remuneration packages of senior management, Executive Directors and Non-executive Directors.

The role and responsibilities, composition, structure and membership requirements of the Committee are documented in a Nomination and Remuneration Committee Charter approved by the Board.

The Nomination and Remuneration Committee Charter provides that the committee should comprise, to the extent practicable given the size and composition of the Board from time to time, at least three members, a majority of whom are independent Directors. If the Company has three or more Non-executive Directors then the Company will, to the extent practicable, ensure that the Nomination and Remuneration Committee is comprised entirely of Non-executive Directors. If this is not the case the Company will aim to ensure that the Nomination and Remuneration Committee comprises as many Non-executive Directors as is practicable in the circumstances.

To the extent practicable, the chair of the Nomination and Remuneration Committee shall be an independent Director. The Committee will meet at least two times each financial year.

#### 6.4.6 Code of conduct

The Board has approved a Code of Conduct to guide compliance with legal and other obligations to the Company's stakeholders and which sets ethical standards for ELMO's personnel and reflects the Directors' intention to ensure that the duties and responsibilities of all staff of the Company are performed with the utmost integrity. The Company considers its stakeholders to be employees, shareholders, creditors, customers, suppliers, contractors, consultants, governmental and non-governmental organisations, the communities where the Company or its subsidiaries operate and other parties that have influence over or are influenced by the Company or its subsidiaries.

The Code of Conduct deals with the following principal areas:

- integrity and professionalism;
- compliance with the law;
- conflicts of interest;
- confidential information;
- inside information;

## 6 Key People, Interests and Benefits

- benefits to group personnel including executives;
- fair trading and dealing;
- corporate opportunities;
- protection and proper use of company assets;
- responsibilities to Shareholders and the financial community;
- employment practices;
- responsibilities to the community;
- responsibilities to the individual; and
- compliance with all local and international laws.

### 6.4.7 Price Sensitive Information Policy

ELMO's Price Sensitive Information Policy is designed to ensure compliance with the ASX Listing Rules disclosure requirements and imposes obligations and procedures on all Directors and employees of the Company to ensure the timely and balanced disclosure of all material matters concerning the Company. The Price Sensitive Information Policy includes vetting and authorisation processes designed to ensure that ELMO's information:

- If required to be disclosed, is disclosed in a timely manner;
- is factual;
- does not omit material information; and
- is expressed in a clear and objective manner.

### 6.4.8 Communications with Shareholders

ELMO's Shareholder Communication Policy is designed to facilitate full and open communication with its shareholders, observing the highest standards in corporate governance and shareholder communications. The policy outlines the Company's policy of shareholder communications and the processes which the Company has in place to facilitate and encourage participation at shareholder meetings.

The Board aims to ensure that the Company is committed to maintaining direct, open, timely and effective two-way communications with all Shareholders. Information will be communicated to Shareholders through announcements to ASX, ELMO's annual report, annual general meetings, half yearly and full year results, and ELMO's website, [www.elmotalent.com.au](http://www.elmotalent.com.au).

### 6.4.9 Diversity policy

ELMO has adopted a Diversity Policy which sets out ELMO's commitment to diversity and inclusion in the workplace. Under the Diversity Policy ELMO recognises other diversity grounds and commits to not discriminate against individuals on a number of grounds including race, impairment, parental status, religious beliefs and political beliefs. Under the Diversity Policy the Company states that, as a principle, it will not tolerate discrimination, harassment, vilification or victimisation in the workplace.

### 6.4.10 Securities Dealing Policy

ELMO has a Securities Dealing Policy for Directors, employees and contractors of ELMO. The policy requires that Directors and employees of the Company in possession of price sensitive information must not at any time deal in securities of the Company, or advise or suggest another person do so, or communicate the price sensitive information to a person who may deal in securities of the Company.

The Securities Dealing Policy requires Directors and key management personnel to obtain approval prior to dealing in any ELMO securities. Subject to compliance with insider trading laws, the policy allows ELMO's personnel to trade in ELMO securities at any time, except during either (i) the period following 31 December and 30 June up to the time of the announcement of the Company's half year or annual financial results to ASX respectively or (ii) any other period designated by the Board. In the case of any securities that are Options issued under the SEEP or the HPEP, personnel will only be permitted to exercise those Options during a window of four weeks following the release of ELMO's half year or annual financial results to ASX, or following ELMO's annual general meeting held in each year. The resulting Shares may then be traded by personnel in accordance with the other terms of the Securities Dealing Policy.

ELMO personnel may be permitted to trade in ELMO securities during any closed period if there is exceptional financial circumstances, and the chair approves of those circumstances, subject in all cases to compliance with insider trading laws. The Securities Dealing Policy also prohibits Directors and key management personnel from engaging in short-term dealing in securities of the Company.

Directors and employees may take out margin loans over their holdings in ELMO securities. However they must not allow a margin call to be met by the sale of ELMO securities at a time when they would not have been able to sell those securities themselves under the Securities Dealing Policy.



#### 6.4.11 Departures from the ASX Recommendations

TABLE 6: DEPARTURES FROM THE ASX RECOMMENDATIONS

ASX Principles and ASX Recommendations	Summary of position for ELMO
<p><b>Recommendation 4.1:</b> The board of a listed entity should:</p> <ol style="list-style-type: none"> <li>have an audit committee which: <ol style="list-style-type: none"> <li>has at least three members, all of whom are Non-executive directors and a majority of whom are independent directors; and</li> <li>is chaired by an independent director, who is not the chair of the board,</li> </ol> </li> <li>and disclose: <ol style="list-style-type: none"> <li>the charter of the committee;</li> <li>the relevant qualifications and experience of the members of the committee; and</li> <li>in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> <li>if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</li> </ol>	<p>Due to the current structure and composition of the Board, the Audit and Risk Management Committee is not comprised of a majority of independent Directors and so ELMO is unable to fully comply with Recommendation 4.1. ELMO is satisfied that the current composition of committee members is adequate and that non-compliance with Recommendation 4.1 will not be detrimental to ELMO.</p>
<p><b>Recommendation 2.4:</b> The majority of the board of a listed entity should be independent directors.</p>	<p>The Board considers that a board comprising four members with the relevant skills of each member is sufficient for the time being for a company of the size and nature of ELMO. However, due to the current structure and composition of the Board, where only two Directors out of a total of four Directors are considered independent, ELMO is unable to fully comply with Recommendation 2.4. ELMO is satisfied that the current number of independent Directors on the Board will not be detrimental to ELMO</p>
<p><b>Recommendation 1.5:</b> The board of a listed entity should:</p> <ol style="list-style-type: none"> <li>have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</li> <li>disclose that policy or a summary of it; and</li> <li>disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: <ol style="list-style-type: none"> <li>the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</li> <li>if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "gender Equality Indicators", as defined in and published under the Act.</li> </ol> </li> </ol>	<p>ELMO has adopted a diversity policy as summarised in Section 6.4.9. The board fully supports all kinds of diversity, however the Board has determined that for the time being the policy will not include measurable objectives against which ELMO will report on an annual basis. Due to the size of the Company the Board does not consider it appropriate to adopt such measurable objectives or set targets at this time.</p>



7

# DETAILS OF THE OFFER

## 7.1 Introduction

### 7.1.1 The Offer

This Prospectus relates to an initial public offering of New Shares issued by ELMO at an Offer Price of \$2.00 per Share (**Offer Price**). A total of 12.5 million Shares will be available under the Offer.

The Shares offered under this Prospectus will represent approximately 23.1% of the Shares on issue at completion of the Offer.

The Offer (excluding the Employee Gift Offer, under which no proceeds will be raised) is expected to raise approximately \$25.0 million from the issue of New Shares by the Company for the Company's benefit.

The total number of Shares on issue at Completion will be 54.1 million and all Shares will, once issued, rank equally with each other.

The Shares held by the Existing Shareholders will be subject to escrow arrangements described in Section 7.7. in accordance with the ASX Listing Rules.

The Offer has been fully underwritten by the Underwriter. A summary of the Underwriting Agreement including the events which would entitle the Underwriter to terminate the Underwriting Agreement is set out in Section 9.4.3.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

### 7.1.2 Structure of the offer

The Offer comprises the following components:

- **Broker Firm Offer:** an offer to Australian resident retail clients of Brokers who have received a firm allocation from their Broker (see Section 7.3);
- **Institutional Offer:** an invitation to bid for Shares made to Institutional Investors in Australia and in certain other eligible jurisdictions (see Section 7.4);
- **Priority Offer:** open to selected investors who have received an invitation from the Company (see Section 7.5); and
- **Employee Gift Offer:** open to Eligible Gift Employees who have received an Offer from the Company to acquire, at no cost, the nearest whole number of Shares (rounded down based on the Offer Price) up to the value of \$500 each (see Section 7.6).

No general public offer of Shares will be made under the Offer. The allocation of Shares between the Broker Firm Offer, the Institutional Offer, the Priority Offer and the Employee Gift Offer will be determined by agreement between the Company and the Lead Manager, having regard to the allocation policy outlined in Section 7.3.3., Section 7.4.2., Section 7.5.4. and Section 7.6.3.

### 7.1.3 Purpose of the Offer

The Offer is being conducted to:

- provide funding and financial flexibility to support ELMO's growth strategies;
- fund increased investment in new product development;
- fund increased investment in sales and marketing;
- provide funding flexibility to opportunistically acquire other existing providers of HCM solutions that could complement ELMO's platform and solutions;
- attract and retain high-quality staff;
- increase ELMO's brand profile through being a listed entity; and
- cover IPO and capital raising costs.

### 7.1.4 Sources and uses of funds

The Offer is expected to raise gross proceeds of approximately \$25.0 million. Assuming the completion of the Offer occurs on Thursday, 29 June 2017, the funds will be applied as follows:

TABLE 7: SOURCES AND USES OF FUNDS

Source of funds	\$ million	Use of funds	\$ million
Offer Proceeds	25.0	Investment in sales and marketing	21.6
		Investment in product development	
		For general corporate purposes	
		Potentially to fund further acquisitions	
		Pay the costs associated with the Offer*	3.4
<b>Total</b>	<b>25.0</b>	<b>Total</b>	<b>25.0</b>

\* The costs of the Offer include the fees payable to advisers as referred to in Section 6.3.1 and Section 9.4.3.1, as well as other costs such as registry fees, ASX listing fees and other adviser fees.

The Board retains the right to vary these uses of funds, acting in the best interests of Shareholders and as circumstances require.

## 7 Details of the Offer

### 7.1.5 Pro forma balance sheet

The Company's pro forma balance sheet following completion of the Offer, including details of pro forma adjustments, is set out in Section 4.

### 7.1.6 Shareholding structure

The Company expects its key Shareholders will have the following approximate Shareholdings on the Prospectus Date and following completion of the Offer.

TABLE 8: ELMO'S SHAREHOLDING STRUCTURE

Shareholder	Shareholding immediately prior to the Offer (Shares)	Shareholding immediately prior to the Offer (%)	Shareholding post-IPO (shares)	Shareholding post-IPO (%)
JLAB Investments (No. 2) Pty Ltd	16.0 million	38.4%	16.0 million	29.6%
Garber Family Trust	12.0 million	28.8%	12.0 million	22.1%
Lessem Trading Pty Ltd (Danny Lessem)	12.0 million	28.8%	12.0 million	22.1%
Key management	1.7 million	4.0%	1.7 million	3.1%
Investors in the Offer	Nil	Nil	12.5 million	23.1%
<b>Total</b>	<b>41.7 million</b>	<b>100.0%</b>	<b>54.2 million</b>	<b>100.0%</b>

Notes: Share numbers have been rounded up. Excludes Shares to be issued by the Company under the Employee Gift Offer. Excludes any Shares that may be acquired by Directors (or their associated entities), key management or other employees under the Offer (including the Employee Gift Offer).

### 7.1.7 Control implications of the Offer

The Directors do not expect any single Shareholder to control ELMO on Completion (based on the definition of 'control' in section 50AA of the Corporations Act).

### 7.1.8 Potential effect of the fundraising on the future of ELMO

The Directors believe that on Completion, ELMO will have sufficient funds available from cash proceeds of the Offer and its operations to fulfil the purposes of the Offer and to meet the Company's stated business objectives during the Forecast Period.

## 7.2 Terms and conditions of the Offer

TABLE 9: TERMS AND CONDITIONS OF THE OFFER

Topic	Summary
<b>What is the type of security being offered?</b>	Fully paid ordinary shares in the capital of ELMO.
<b>What are the rights and liabilities attached to the security being offered?</b>	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 9.5.2.
<b>What is the consideration payable for each security being offered?</b>	Successful Applicants under the Offer will pay the Offer Price, being \$2.00 per Share.
<b>What is the Offer Period?</b>	<p>The Broker Firm Offer, the Institutional Offer and the Employee Gift Offer will open at 9.00am (Sydney time) on Tuesday, 13 June 2017.</p> <p>The Broker Firm Offer, the Institutional Offer and the Employee Gift Offer will close at 5.00pm (Sydney time) on Tuesday, 20 June 2017.</p> <p>The Priority Offer will open at 9.00am (Sydney time) on Tuesday, 13 June 2017 and will close at 5.00pm (Sydney time) on Tuesday, 20 June 2017.</p> <p>The key dates, including details of the Offer Period, are set out on page 2 of this Prospectus. The timetable is indicative only and may change. Unless otherwise indicated, all times are stated in Sydney, Australia time. The Company in consultation with the Lead Manager, reserves the right to vary both of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Closing Date, to accept late Applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without prior notice).</p> <p>If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens.</p> <p>No Shares will be issued on the basis of this Prospectus later than the Expiry Date.</p>

Topic	Summary
<b>What are the cash proceeds to be raised under the Offer?</b>	Approximately \$25.0 million will be raised under the Offer.
<b>Is the Offer underwritten?</b>	Yes. The Underwriter has fully underwritten the Offer pursuant to the Underwriting Agreement. Details are provided in Section 9.4.3.
<b>What is the minimum and maximum Application size under the Broker Firm Offer, the Priority Offer and the Employee Gift Offer?</b>	<p>The minimum Application size for investors in the Broker Firm Offer and the Priority Offer is \$2,000 worth of Shares.</p> <p>There is no maximum value of Shares that may be applied for under the Broker Firm Offer or the Priority Offer.</p> <p>Under the Employee Gift Offer, Eligible Gift Employees will be offered the opportunity to apply for up to \$500 (rounded down based on the Offer Price) worth of Shares at no cost. No proceeds will be raised under the Employee Gift Offer.</p>
<b>What is the allocation policy?</b>	<p>The allocation of Shares under the Institutional Offer was determined by agreement between the Company and the Lead Manager, having regard to the allocation policy outlined in Section 7.4.2.</p> <p>The allocation of Shares between the Broker firm Offer and the Priority Offer will be determined by agreement between the Company and the Lead Manager, having regard to the allocation policy outlined in Section 7.3.3. and Section 7.5.4. With respect to the Broker Firm Offer, it is a matter for the Brokers as to how they allocate Shares among their retail clients. Priority Offer Applicants will be guaranteed a minimum allocation of \$2,000 of Shares at the Offer Price.</p> <p>The Lead Manager and the Company have absolute discretion regarding the allocation of Shares to Applicants under the Offer and may reject an Application, or allocate a lesser number of Shares than the amount applied for. The Lead Manager and the Company also reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person.</p> <p>All Eligible Gift Employees will be offered the opportunity to acquire a guaranteed allocation of \$500 worth of Shares at no cost the Eligible Gift Employee.</p>
<b>When will I receive confirmation that my Application has been successful?</b>	It is expected that initial holding statements will be dispatched by standard post by Friday, 23 June 2017.
<b>Will the Shares be quoted?</b>	<p>ELMO will apply to ASX within seven days after the Prospectus Date for Admission to the Official List and quotation of Shares on ASX (which is expected to be under the code 'ELO').</p> <p>Completion is conditional on ASX approving the application for admission and quotation. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.</p> <p>ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit ELMO to the Official List is not to be taken as an indication of the merits of ELMO or the Shares offered under the Offer.</p>
<b>When are the Shares expected to commence trading?</b>	<p>Shares are expected to commence trading on ASX on a normal settlement basis on or around Thursday, 29 June 2017.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. The Company, the Share Registry and the Underwriter disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the ELMO Offer Information Line or confirmed your firm allocation through a Broker.</p>
<b>Are there any escrow arrangements?</b>	Yes. Details are provided in Section 7.7.
<b>Has any ASIC relief or ASX waiver been obtained or been relied on?</b>	No.



## 7 Details of the Offer

Topic	Summary
<b>Are there any taxation considerations?</b>	The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest. Refer to Section 9.8. for general tax considerations.
<b>Are there any brokerage, commission or stamp duty considerations?</b>	No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares under the Offer.  See Section 9.4.3. for details of various commissions, fees and expenses payable by ELMO to the Underwriter.
<b>What should you do with any enquiries?</b>	All enquiries in relation to this Prospectus should be directed to the ELMO Offer Information Line on 1800 812 642 (toll free within Australia) or +61 1800 812 642 (outside of Australia) between 8.30am to 5.30pm (Sydney time), Monday to Friday (business days only) during the Offer Period.  All enquiries in relation to the Broker Firm Offer should be directed to your Broker.  If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

### 7.3 Broker Firm Offer

#### 7.3.1 Who may apply

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. If you have received a firm allocation of Shares from your Broker, you will be treated as a Broker Firm Offer Applicant in respect of that allocation. You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer. The Broker Firm Offer is not open to persons located in the United States.

#### 7.3.2 How to apply for Shares under the Broker Firm Offer

If you have received an allocation of Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions. Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Share Registry.

Applicants under the Broker Firm Offer should contact their Broker or the ELMO Offer Information Line on 1800 812 642 (toll free within Australia) or +61 1800 812 642 (outside of Australia) between 8.30am to 5.30pm (Sydney time), Monday to Friday (business days only) during the Offer Period to request a copy of this Prospectus and Application Form, or download a copy at [www.elmotalent.com.au](http://www.elmotalent.com.au). Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and Application Monies are received before 5.00pm (Sydney time) on the Closing Date or any earlier closing date as determined by your Broker.

If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received your firm allocation. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by that Broker.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

ELMO, the Lead Manager and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

ELMO and the Lead Manager may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier time and date, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Contact your Broker for instructions.

### **7.3.3 Allocation policy under the Broker Firm Offer**

Shares that have been allocated to Brokers for allocation to their Australian resident retail clients have been issued to the Applicants nominated by those Brokers. It was a matter for each Broker as to how it allocates Shares among its retail clients, and it (and not ELMO or the Lead Manager) will be responsible for ensuring that retail clients who have received a firm allocation from it receive the relevant Shares.

### **7.3.4 Acceptance of Applications**

An Application in the Broker Firm Offer is an offer by you to ELMO to apply for the amount of Shares specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted in respect of the full number of Shares specified in the Application Form or any lower number, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to successful Applicants.

ELMO and the Lead Manager reserve the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by an Applicant in completing their Application.

### **7.3.5 Application Monies**

Application Monies received under the Broker Firm Offer will be held in a special purpose account until Shares are issued or transferred to successful Applicants. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by ELMO.

## **7.4 Institutional Offer**

### **7.4.1 Invitations to bid**

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions outside the United States to bid for an allocation of Shares at the Offer Price. The Lead Manager separately advised Institutional Investors of the application procedures for the Institutional Offer.

### **7.4.2 Allocation policy under the Institutional Offer**

The allocation of Shares among Applicants between the Institutional Offer and the Broker Firm Offer was determined by the Lead Manager in agreement with the Company. The Lead Manager and ELMO had absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Lead Manager.

The allocation policy was influenced, but not constrained, by the following factors:

- number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants;
- the desire for an informed and active trading market following Listing;
- the desire to establish a wide spread of institutional Shareholders;
- overall level of demand under the Broker Firm Offer and Institutional Offer;
- the size and type of funds under management of particular Applicants;
- the likelihood that particular Applicants will be long-term Shareholders; and
- any other factors that ELMO and the Lead Manager considered appropriate.



# 7 Details of the Offer

## 7.5 Priority Offer

### 7.5.1 Who can apply

The Priority Offer is open to selected investors who have received an invitation from the Company. If you are a Priority Offer Applicant, you will receive a personalised invitation for Shares in the Priority Offer. Please follow the instructions in that personalised invitation if you wish to apply for Shares under the Priority Offer. The Priority Offer is not open to persons in the United States.

### 7.5.2 How to apply for Shares under the Priority Offer

Priority Offer Applicants must apply for Shares on the website, [www.elmotalent.com.au](http://www.elmotalent.com.au). Applicants must comply with the instructions provided in their personalised Priority Offer invitation and on the website. Online applications and Application Monies must be received by the Share Registry on or before the Closing Date of 5.00pm (Sydney time) on Tuesday, 20 June 2017. Applications under the Priority Offer must be for a minimum of \$2,000 of Shares and in multiples of \$1,000 of Shares thereafter. Priority Offer Applicants are guaranteed a minimum allocation of \$2,000 of Shares at the Offer Price.

### 7.5.3 Application Monies

Payments must be made via BPAY® for Priority Offer Applicants in Australia. Application Monies must be received by the Share Registry by 5.00pm (Sydney time) on Tuesday, 20 June 2017.

To make a payment via BPAY®, Priority Offer Applicants must apply online at [www.elmotalent.com.au](http://www.elmotalent.com.au) and must comply with the instructions provided in their personalised Priority Offer invitation and on the website. It is your responsibility to ensure that your BPAY® payment or electronic funds transfer payment is received by the Share Registry by no later than 5.00pm (Sydney time) on Tuesday, 20 June 2017. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

### 7.5.4 Allocation policy under the Priority Offer

The Invitations to apply under the Priority Offer have been made at the absolute discretion of ELMO.

Priority Offer Applicants have been guaranteed a minimum allocation of \$2,000 of Shares at the Offer Price. To the extent that you have applied for Shares in excess of the amount indicated as your guaranteed minimum allocation, your Application may have been scaled back. ELMO may reject an Application, or allocate a lesser dollar amount of Shares than the amount applied for, in its absolute discretion.

## 7.6 Employee Gift Offer

### 7.6.1 Who can apply

The Employee Gift Offer is only open to Eligible Gift Employees. Eligible Gift Employees will be provided separately with an invitation to participate in the Employee Gift Offer.

If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

### 7.6.2 How to apply for Shares under the Employee Gift Offer

A separate invitation, together with access to this Prospectus, will be provided to Eligible Gift Employees, detailing the terms of the Employee Gift Offer. Eligible Gift Employees who wish to participate in the Employee Gift Offer should follow the instructions set out in the invitation.

No payment is required for the Employee Gift Offer and no proceeds will be raised under the Employee Gift Offer.

### 7.6.3 Allocation Policy under the Employee Gift Offer

Employee Gift Offer applicants will be offered the opportunity to acquire a guaranteed allocation of \$500 worth of Shares at no cost to the Eligible Gift Employee.

## 7.7 Escrow arrangements

The Company expects that on its application for Listing the Existing Shareholders who are related parties or promoters (as defined in the ASX Listing Rules) will have their Existing Shares compulsorily escrowed by ASX for a period of 24 months from the date of quotation of the Shares on ASX.

The Company also expects that the Existing Shareholders who are key management will have some, but not all, of their Existing Shares compulsorily escrowed by ASX for a period of 12 months from the date of issue of those Existing Shares. However, those key management personnel have agreed that any Existing Shares that are not escrowed by ASX will be voluntarily escrowed for 24 months from the date of quotation of the Shares on ASX. Those key management personnel have also agreed that any Shares released from ASX escrow before the end of the 24 month escrow period will be immediately subject to a voluntary escrow for the remainder of the 24 month period.

Each of the Existing Shareholders, has, or will, enter into an escrow agreement based on the above arrangements. The escrow agreement prevents the holder from disposing of their escrowed Shares for the applicable escrow period. The restriction on 'disposing' is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the escrowed Shares.

Any Shares subject to escrow may be released early from the escrow obligations:

- to enable a Shareholder to accept an offer under a takeover offer in relation to the Shares if at least half of the holders of Shares which are the subject of the offer have accepted the takeover offer and the offer becomes unconditional; and
- to enable the Shares held by the Shareholder to be transferred or cancelled as part of a merger by way of a scheme of arrangement under the Corporations Act.

In addition, Shares that are subject to a voluntary escrow arrangement may be transferred as part of an internal transfer or to another related corporation, provided the transferee also signs an escrow agreement on similar terms, or where a dealing in Shares is required by applicable law.

In aggregate, it is expected that a total of approximately 41.7 million Shares will be the subject to these escrow arrangements as outlined in Table 10 below.

**TABLE 10: SUMMARY OF EXPECTED ESCROW ARRANGEMENTS**

Shareholder	Shares immediately post-Offer	Escrow as % of party's holding	Escrow period
JLAB Investments (No. 2) Pty Ltd	16.0 million	100%	24 months
Garber Family Trust	12.0 million	100%	24 months
Lessem Trading Pty Ltd (Danny Lessem)	12.0 million	100%	24 months
Key management	1.6 million	100%	24 months
<b>Total</b>	<b>41.7 million</b>		

Note: Share numbers have been rounded up.

## 7.8 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to apply for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States or elsewhere outside Australia, unless it has attached to it the selling restrictions applicable in the jurisdictions outside Australia, and may only be distributed to persons to whom the Institutional Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. This Prospectus may not be released or distributed in the United States.

Each Applicant in the Broker Firm Offer and Priority Offer and each person in Australia and eligible other jurisdictions to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted, agreed and acknowledged as follows:

- it agrees to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- it acknowledges having personally received a printed or electronic copy of this Prospectus (and any supplementary or replacement prospectus) accompanying the Application Form and having read them all in full;
- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States;
- it is not in the United States;
- it has not sent and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia.

Each Applicant under the Institutional Offer will be required to make certain representations, warranties, acknowledgements and covenants set out in the confirmation of allocation letter distributed to it.

Refer to Section 9.11. for further details on the selling restrictions relating to foreign jurisdictions.

# 7 Details of the Offer

## 7.9 Discretion regarding the Offer

With the consent of the Lead Manager, ELMO may withdraw the Offer at any time before the issue or transfer of Shares to successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

ELMO and the Lead Manager also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Shares than applied or bid for.

## 7.10 ASX listing, registers and holding statements

### 7.10.1 Application to ASX for listing and quotation of Shares

ELMO will apply to ASX within seven days of the Prospectus Date for Admission and quotation of the Shares on ASX. ELMO's ASX code is expected to be 'ELO'.

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of ELMO or the Shares offered for subscription under the Offer.

If permission is not granted for the official quotation of the Shares on ASX within three months after the Prospectus Date (or any later date permitted by law), all Application Monies received by ELMO will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

On Admission, ELMO will be required to comply with the ASX Listing Rules, subject to any waivers obtained by ELMO from time to time.

### 7.10.2 CHESS and issuer sponsored holdings

ELMO will apply to participate in ASX's Clearing House Electronic Subregister System (CHESS) and will comply with the ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, an electronic CHESS subregister or an issuer sponsored subregister.

For all successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (HIN) for CHESS holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring Broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.



8

# INVESTIGATING ACCOUNTANT'S REPORT

# 8 Investigating Accountant's Report

# Deloitte.

Deloitte Corporate Finance Pty Limited  
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The Directors  
ELMO Software Limited  
Level 12, 680 George Street  
Sydney NSW 2000

6 June 2017

Dear Directors

## INVESTIGATING ACCOUNTANT'S REPORT AND FINANCIAL SERVICES GUIDE

### Introduction

This report has been prepared at the request of the directors of Elmo Software Limited (ACN 102 455 087) (the Company) (the Directors) for inclusion in the prospectus to be issued by the Company (the Prospectus) in respect of the initial public offering of fully paid ordinary shares in the Company (the Offer) and listing of the Company on the Australian Securities Exchange.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence under the Corporations Act 2001 for the issue of this report.

Capitalised terms used in this report have the same meaning as defined in the glossary of the Prospectus.

### Scope

#### *Statutory Historical Financial Information*

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review the:

- Statutory historical consolidated statements of profit or loss and other comprehensive income for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016, and the half-years ended 31 December 2015 and 31 December 2016;
- Statutory historical consolidated statement of financial position as at 31 December 2016; and
- Statutory historical consolidated cash flows for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016,

as set out in Figures 46, 49 and 47 respectively of the Prospectus (together, the Statutory Historical Financial Information).

The Statutory Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

The Statutory Historical Financial Information has been extracted from the audited financial report of the Company covering the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016, and the half-years ended 31 December 2015 and 31 December 2016. The audit was undertaken by Deloitte Touche Tohmatsu in accordance with the Australian Auditing Standards. Deloitte Touche Tohmatsu issued an unmodified audit opinion on the financial reports.

The Statutory Historical Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other

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Member of Deloitte Touche Tohmatsu Limited



mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

### ***Pro forma Historical Financial Information***

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review the:

- Pro forma historical consolidated statements of profit or loss and other comprehensive income for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016, and the half-years ended 31 December 2015 and 31 December 2016;
- Pro forma historical consolidated statement of financial position as at 31 December 2016; and
- Pro forma historical consolidated cash flows for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016,

as set out in Figures 40 & 41, 49 and 47 respectively of the Prospectus (together, the Pro forma Historical Financial Information).

The Pro forma Historical Financial Information has been derived from the Statutory Historical Financial Information, after adjusting for the effects of pro forma adjustments described in Figures 44 & 45, 49 and 48 of the Prospectus respectively (the Pro forma Adjustments).

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Historical Financial Information and the events or transactions to which the Pro forma Adjustments relate, as if those events or transactions had occurred as at the date of the Statutory Historical Financial Information. Due to its nature, the Pro forma Historical Financial Information does not represent the Company's actual or prospective financial position, financial performance, or cash flows.

### ***Forecast Financial Information***

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review the:

- Statutory forecast consolidated statement of profit or loss and other comprehensive income and the Statutory forecast consolidated cash flows of the Company for the financial years ending 30 June 2017 and 30 June 2018 as set out in Figure 40 and Figure 47 of the Prospectus (the Statutory Forecast Financial Information). The Directors' best estimate assumptions underlying the Statutory Forecast Financial Information are described in Section 4.13 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies; and
- Pro forma forecast consolidated statement of profit or loss and other comprehensive income and the Pro forma forecast consolidated cash flows of the Company for the financial years ending 30 June 2017 and 30 June 2018 as set out in Figure 40 and Figure 47 of the Prospectus (the Pro forma Forecast Financial Information). The Pro forma Forecast Financial Information has been derived from the Statutory Forecast Financial Information, after adjusting for the effects of the Pro forma Adjustments described in Figures 44 & 45, and 48 of the Prospectus respectively. An audit/review has not been conducted on the source from which the unadjusted financial information was prepared. The stated basis of preparation used in the preparation of the Pro forma Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Forecast Financial Information and the events or transactions to which the Pro forma Adjustments relate, as if those events or transactions had occurred prior to 1 July 2016. Due to its nature the Pro forma Forecast Financial Information does not represent the Company's actual prospective financial performance and/or cash flows for the financial years ending 30 June 2017 and 30 June 2018,

(together, the Forecast Financial Information).



## 8 Investigating Accountant's Report



Page 3  
6 June 2017

The Forecast Financial Information has been prepared by management and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the financial years ending 30 June 2017 and 30 June 2018. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variations may be material.

The Directors' best estimate assumptions on which the Forecast Financial Information is based relate to future events and/or transactions that management expect to occur and actions that management expect to take, and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the assumptions on which the Forecast Financial Information is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best estimate assumptions. We do not express any opinion on the achievability of the results. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company, which are detailed in Section 5 of the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly, prospective investors should have regard to the investment risks and sensitivities set out in Section 5 and Section 4.14 of the Prospectus.

The sensitivity analysis set out in Section 4.14 of the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

### **Directors' Responsibility**

The Directors are responsible for:

- the preparation and presentation of the Statutory Historical Financial Information and the Pro forma Historical Financial Information, including the selection and determination of the Pro forma Adjustments made to the Statutory Historical Financial Information and included in the Pro forma Historical Financial Information;
- the preparation of the Forecast Financial Information, including the best estimate assumptions underlying the Forecast Financial Information and the selection and determination of the Pro forma Adjustments made to the Statutory Forecast Financial Information and included in the Pro forma Forecast Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Statutory Historical Financial Information, the Pro forma Historical Financial Information and the Forecast Financial Information that are free from material misstatement, whether due to fraud or error.

### **Our Responsibility**

Our responsibility is to express a limited assurance conclusion on the Statutory Historical Financial Information, the Pro forma Historical Financial Information, the Statutory Forecast Financial Information and the Pro Forma Forecast Financial Information based on the procedures performed and the evidence we have obtained. We have conducted

our engagement in accordance with the Australian Standard on Assurance Engagements (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review 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 reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

#### ***Statutory Historical Financial Information***

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of Statutory Historical Financial Information from the audited financial statements of the Company for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016, and the half-years ended 31 December 2015 and 31 December 2016;
- analytical procedures on the Statutory Historical Financial Information;
- a consistency check of the application of the stated basis of preparation, as described in the Prospectus, to the Statutory Historical Financial Information;
- a review of the work papers, accounting records and other documents of the Company and its auditors; and
- enquiry of the Directors, management and others in relation to the Statutory Historical Financial Information.

#### ***Pro forma Historical Financial Information***

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of Statutory Historical Financial Information from the audited financial statements of the Company for each of the years mentioned above;
- consideration of the appropriateness of the Pro forma Adjustments described in Section 4.5, Section 4.8 and Section 4.9 of the Prospectus;
- enquiry of the Directors, management, personnel and advisors of the Company;
- the performance of analytical procedures applied to the Pro forma Historical Financial Information;
- a review of work papers, accounting records and other documents of the Company and its auditors; and
- a review of the accounting policies for consistency of application.

#### ***Forecast Financial Information***

- enquiries, including discussions with management and Directors of the factors considered in determining the assumptions;
- analytical and other review procedures we considered necessary including examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast Financial Information;
- review of the accounting policies adopted and used in the preparation of the Forecast Financial Information; and
- consideration of the Pro forma Adjustments applied to the Statutory Forecast Financial Information in preparing the Pro forma Forecast Financial Information.

## 8 Investigating Accountant's Report



Page 5  
6 June 2017

### Conclusions

#### *Statutory Historical Financial Information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.2 of the Prospectus.

#### *Pro forma Historical Financial Information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro forma Historical Financial Information is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 4.2 of the Prospectus.

#### *Statutory Forecast Financial Information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- (i) the Directors' best estimate assumptions used in the preparation of the Statutory Forecast Financial Information do not provide reasonable grounds for the Statutory Forecast Financial Information;
- (ii) in all material respects, the Statutory Forecast Financial Information:
  - a. is not prepared on the basis of the Directors' best estimate assumptions as described in Section 4.13 of the Prospectus;
  - b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in Australian Accounting Standards; and
- (iii) the Statutory Forecast Financial Information itself is unreasonable.

#### *Pro forma Forecast Financial Information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- (i) the Directors' best estimate assumptions used in the preparation of the Pro forma Forecast Financial Information do not provide reasonable grounds for the Pro forma Forecast Financial Information;
- (ii) in all material respects, the Pro forma Forecast Financial Information:
  - a. is not prepared on the basis of the Directors' best estimate assumptions as described in Section 4.13 of the Prospectus;
  - b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in Australian Accounting Standards, applied to the Statutory Forecast Financial Information and the Pro forma Adjustments as if those adjustments had occurred prior to 1 July 2016; and
- (iii) the Pro forma Forecast Financial Information itself is unreasonable.

### Restrictions on Use

Without modifying our conclusions, we draw attention to Section 4 of the Prospectus, which describe the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, the Investigating Accountant's Report may not be suitable for use for another purpose.

## **Consent**

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

## **Disclosure of Interest**

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the auditor of the Company.

Yours faithfully

**DELOITTE CORPORATE FINANCE PTY LIMITED**



**David Hagger**  
Authorised Representative of  
Deloitte Corporate Finance Pty Limited  
(AFSL Number 241457)  
AR Number 461001

# 8 Investigating Accountant's Report



## Financial Services Guide

### What is a Financial Services Guide?

**This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.**

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

### What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

### Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

### How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. Clients may request particulars of our remuneration within a reasonable time after being given this FSG.

August 2016

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

### Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu. We and other entities related to Deloitte Touche Tohmatsu:

- do not have any formal associations or relationships with any entities that are issuers of financial products
- may provide professional services to issuers of financial products in the ordinary course of business.

### What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer  
PO Box N250  
Grosvenor Place  
Sydney NSW 1220  
[complaints@deloitte.com.au](mailto:complaints@deloitte.com.au)  
Fax: +61 2 9255 8434

Financial Ombudsman Service  
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### What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

Deloitte Corporate Finance Pty Limited, ABN 19 003 883 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Member of Deloitte Touche Tohmatsu Limited





9

ADDITIONAL  
INFORMATION



# 9 Additional Information

## 9.1 Registration

ELMO was registered in New South Wales, Australia on 9 October 2002 as a proprietary company limited by shares and was converted to a public company on 21 April 2017.

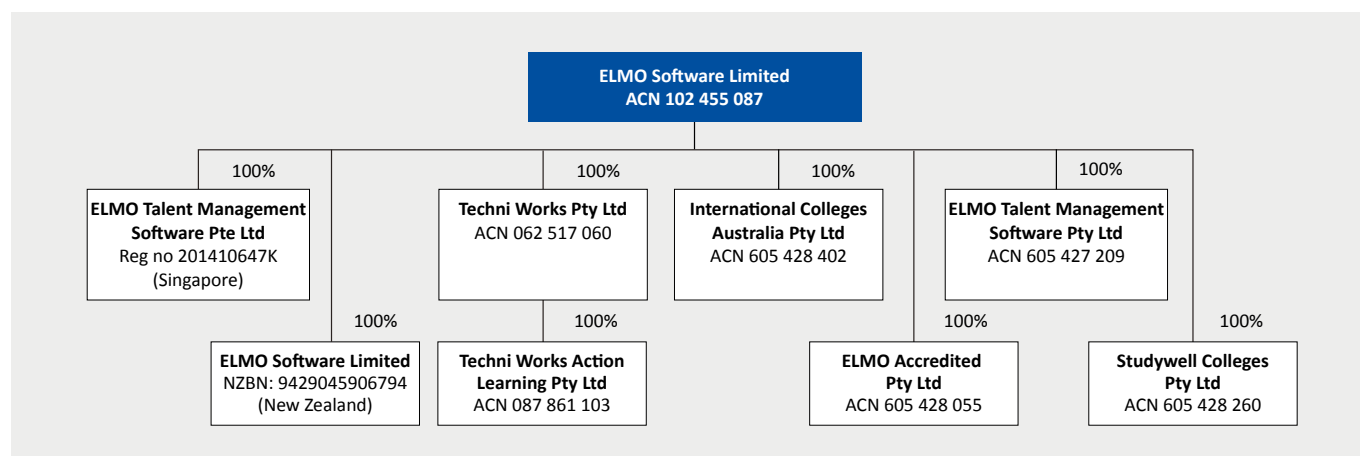
## 9.2 Company tax status and financial year

ELMO is and will be subject to tax at the Australian corporate tax rate, currently being 30%.

ELMO's financial year ends on 30 June annually.

## 9.3 Corporate structure

The corporate structure of ELMO and its subsidiaries is:



## 9.4 Material agreements

### 9.4.1 Cloud Services Agreement

ELMO has entered into a cloud services agreement (**Cloud Services Agreement**) with Bulletproof Group Limited (**Bulletproof**).

The Cloud Services Agreement outlines the terms on which Bulletproof has agreed to provide AWS and AWS support services (**AWS Services**) to ELMO.

The term of the Cloud Services Agreement is month-to-month. Either ELMO or Bulletproof may terminate the Cloud Services Agreement for convenience on 30 days' prior written notice to the other party. Either ELMO or Bulletproof may terminate the Cloud Services Agreement with immediate effect upon notice if the other party:

- commits any serious or persistent breach of any provisions of the Cloud Services Agreement and, where the breach is capable of remedy, does not remedy the breach within 21 days of receipt of written notice to remedy the breach;
- does not pay any amount due under the terms of the Cloud Services Agreement within 30 days of the date such payment was due; or
- suffers, or becomes subject to any form of, an insolvency event.

Under the Cloud Services Agreement, all intellectual property rights in the **Customer Content** (being all content provided by ELMO to Bulletproof, including words, logos, information, documents, materials, etc.) are and remain the property of ELMO. ELMO grants Bulletproof a royalty-free, non-exclusive, revocable licence to use the Customer Content to the extent necessary to perform its obligations under the Cloud Services Agreement.

Bulletproof owns all rights, title and interest to the Pre-Existing Materials (being any materials existing at the date of the Cloud Services Agreement, including trade marks, designs, design specifications, software, hardware or other documentation and materials used in Bulletproof's business) and grants ELMO a non-exclusive, non-transferable licence to use the Pre-Existing Materials to the extent they form part of the **Contract Materials** (being any deliverable created by Bulletproof solely and specifically for ELMO to give effect to the AWS Services and which are not applicable generally to Bulletproof's implementation of services more broadly). ELMO grants Bulletproof a royalty free, non-exclusive, non-transferable licence to use the Contract Materials for the purpose of performing the AWS Services.

Under the Cloud Services Agreement, ELMO is prohibited from, amongst other things, using the AWS Services:

- in a manner which may be prejudicial to Bulletproof or its goodwill, reputation or business;
- to commit any offence or breach any applicable laws;
- in a manner that is excessive or unusual or creates an unfair burden on the provision of the AWS Services, or similar services, to others (as judged in Bulletproof's reasonable discretion);
- in a way that interferes (or threatens to interfere) with the efficiency and security of the AWS Services or another person's services;
- to accept, transmit or distribute unsolicited bulk email;
- to send email that hides or obscures the source of the email;
- to distribute trojan horses, worms, malicious or destructive code or any instructions activating such code; or
- to menace, harass or stalk any person.

Under the Cloud Services Agreement, Bulletproof makes no representation that the AWS Services will be uninterrupted or free from defects and errors and Bulletproof's liability under the Cloud Services Agreement is limited to the fees paid to Bulletproof by ELMO under the Cloud Services Agreement during the 12 months prior to the date on which the event giving rise to the relevant loss occurred.

The Cloud Services Agreement is governed by the laws of the state of New South Wales.

#### **9.4.2 Techni Works Share Purchase Agreement**

In October 2016, ELMO acquired 100% of the shares in Techni Works pursuant to a share sale agreement (**SSA**). Under the SSA, ELMO has the following continuing warranties:

- to deal with Techni Works' clients in the ordinary and usual course of the conduct of ELMO's business for a period of 12 months from completion of the sale; and
- to host the Techni Works services in Australia for a minimum of 12 months from completion of the sale.

Further, a portion of the purchase price under the SSA is payable monthly to the sellers up to April 2018, subject to a maximum consideration payable of \$2.6 million, of which a total of \$1 million was paid on completion in October 2016. The ongoing consideration to be paid is calculated based on a formula set out in the SSA and is a multiple of revenue received by Techni Works for the sale of certain services and products over a base amount of \$500,000. The amount of consideration payable by ELMO varies from month to month based on the formula.

#### **9.4.3 Underwriting Agreement**

The Offer is underwritten by the Underwriter pursuant to an underwriting agreement dated Tuesday, 6 June 2017 between ELMO and the Underwriter (**Underwriting Agreement**). Under the Underwriting Agreement, the Underwriter has agreed to arrange, manage and underwrite the Offer. The following is a summary of the principal provisions of the Underwriting Agreement.

For the purpose of this Section 9.4.3, 'Offer Documents' means the documents issued or published by or on behalf of the Company in respect of or relating to the Offer including:

- this Prospectus, any Application Forms, the "pathfinder prospectus" prepared and distributed in connection with the Offer and any supplementary prospectus;
- the "confirmation letters" sent by the Underwriter to investors under the Institutional Offer; and
- the roadshow presentation materials or other information provided to prospective investors approved by the Company to conduct the marketing of the Offer.

##### **9.4.3.1 Commissions, fees and expenses**

The Company has agreed to pay the Underwriter:

- a management fee equal to 1.0% of the Offer Proceeds; and
- an underwriter's fee equal to 2.75% of the Offer Proceeds.

The Company has also agreed to pay the Underwriter an incentive fee equal to 1.0% of the Offer Proceeds at the discretion of the Company acting reasonably.

In addition to the fees described above, the Company has agreed to reimburse the Underwriter for certain agreed costs and expenses, including certain legal expenses, incurred by the Underwriter in relation to the Offer.

##### **9.4.3.2 Conditions, representations, warranties and undertakings**

The Underwriting Agreement contains certain standard representations, warranties and undertakings by the Company to the Underwriter as well as conditions precedent to the benefit of the Underwriter, including due diligence, the Company being capable of accepting Applications, delivery of a legal opinion and entry into restriction agreements in respect of the Escrowed Shareholders, and ASX indicating that it will grant permission for admission of the Company to the Official List.

The representations and warranties given by the Company relate to matters such as power and authorisations, information provided by ELMO, financial information, information in the Offer Documents, the conduct of the Offer and compliance with laws, ASX Listing Rules and other applicable laws material to the business, ELMO material contracts, litigation, and authorisations.

The Company's undertakings include, amongst others, that it will perform its obligations under the Underwriting Agreement, comply with and observe the ASX Listing Rules, inform the Underwriter in writing of any breach or default of the Underwriting Agreement, and keep the Underwriter informed of any material adverse change to the Company's financial position during the term of the Underwriting Agreement.

##### **9.4.3.3 Indemnity**

Subject to certain exclusions relating to, among other things, fraud, bad faith, wilful misconduct or negligence of the Underwriter and certain closely related parties, the Company agree to keep the Underwriter and certain closely related parties indemnified from losses suffered in connection with the Offer.

## 9 Additional Information

### 9.4.3.4 Termination events not limited to materiality

The Underwriter may terminate the Underwriting Agreement at any time prior to Completion or such other time as specified below on the occurrence of any of the following events:

- a statement contained in the Prospectus is found to be misleading or deceptive or likely to mislead or deceive, or a matter required by the Corporations Act is omitted from the Prospectus (having regard to section 710, 711 and 716 of the Corporations Act) or if any statement in the Prospectus becomes misleading or deceptive or likely to mislead or deceive or if the issue of the Prospectus becomes misleading or deceptive or likely to mislead or deceive;
- approval is refused or not granted, other than subject to standard conditions customarily imposed, or any other conditions reasonably acceptable to the Company and the Underwriter for the Company's admission to the Official List on or before 29 June 2017 or if approval is granted, such approval is subsequently withdrawn, qualified or withheld before Completion;
- the S&P/ASX Small Ordinaries Index or the S&P/ASX 200 Index is, after the date of the Underwriting Agreement and prior to the Issue Date, more than 10% below the level of that index at the close of ASX trading on the trading day before the date of the Prospectus;
- any material adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company from those disclosed in the Prospectus, including, but limited to, any material adverse change in the reported earnings or future prospects of the Company or in the nature of the business conducted by the Company;
- the Company withdraws the Prospectus or terminates the Offer;
- any circumstance arises after lodgement of the Prospectus that results in the Company either repaying the Application Monies (other than to Applicants whose Application Forms were not accepted in whole or in part or which were rejected in accordance with the Underwriting Agreement) or offering applicants an opportunity to withdraw their Application Form for Shares and be repaid their Application Monies;
- a judgment in an amount exceeding \$100,000 is obtained against the Company or a Related Body Corporate and is not set aside or satisfied within 21 days;
- any distress, attachment, execution or other process of a governmental agency in an amount exceeding \$100,000 is issued against, levied or enforced upon any of the assets of the Company or a Related Body Corporate and is not set aside or satisfied within 21 days;
- the Company or a Related Body Corporate passes or takes any steps to pass a resolution under section 260B of the Corporations Act, without the prior written consent of the Underwriter, such consent not to be unreasonably withheld or delayed;
- the Company or a Related Body Corporate suspends payment of its debts generally;
- the Company or a Related Body Corporate is or becomes unable to pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act or is presumed to be insolvent under the Corporations Act;
- the Company or a Related Body Corporate enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of, its creditors or any class of them;
- other than as contemplated by the Prospectus, the Company or a Related Body Corporate ceases or threatens to cease to carry on business;
- other than as disclosed in an Offer Document or by the Company to the Underwriter in writing prior to the date of this document, the Company agrees to charge or encumber, the whole, or a substantial part of the business or property of the Company or a Related Body Corporate;
- any of the following notifications are made:
  - ASIC holds a hearing under section 739(2);
  - ASIC makes an interim order or final stop order in relation to the Prospectus under section 739 of the Corporations Act or gives notice of its intention to hold a hearing under section 739 of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus or makes an application under section 1324 or 1324B of the Corporations Act (and any such hearing or inquiry becomes public or is not withdrawn within three business days, or if it has been made within three business days of the date agreed in the Underwriting Agreement it has not been withdrawn by the date agreed in the Underwriting Agreement);
  - any person (other than the Underwriter) gives a notice under section 733(3) of the Corporations Act or any person who has previously consented to the inclusion of their name in the Prospectus (or any supplementary prospectus) or to be named in the Prospectus withdraws their consent after lodgement;
  - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Prospectus or the Offer, or ASIC commences or gives notice of an intention to hold, any investigation, proceeding or hearing under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) in relation to the Prospectus or the Offer (and any such application, investigation, proceedings or hearing becomes public or is not withdrawn within three business days or if it is made within three business days of the date agreed in the Underwriting Agreement it has not been withdrawn by the date agreed in the Underwriting Agreement); or
  - any person gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- ASIC issues proceedings in relation to the Offer;
- ASX withdraws, revokes or amends any waiver of the Listing Rules granted by it in a material respect;
- any of the following occurs:
  - material legal proceedings are commenced against the Company;
  - the Company or Related Body Corporate or any of their respective directors or officers or key management staff engage, or are alleged to have been engaged in, any fraudulent activity, whether or not in connection with the Offer;
  - any director of a Group member is charged with an indictable offence; or
  - any Director is disqualified from managing a corporation under section 206A of the Corporations Act;

- the Company lodges a supplementary prospectus without the consent of the Underwriter, such consent not to be unreasonably withheld or delayed, or fails to lodge a supplementary prospectus in a form acceptable to an Underwriter or, in the Underwriter’s reasonable opinion, becomes required to lodge a supplementary prospectus because of a circumstance set out in section 719(1) of the Corporations Act and fails to do so;
- an event specified in the timetable agreed in the Underwriting Agreement is delayed for more than three business days other than as the result of actions taken by the Underwriter or due to requirements of ASX or actions of the Company (where those actions were taken with the Underwriter’s prior written consent, such consent not to be unreasonable withheld or delayed); or
- the Prospectus or any aspect of the Offer does not comply with the Corporations Act, the ASX Listing Rules or any other applicable law or regulation; or the Company is prevented from allotting or issuing the Shares within the time required by the Underwriting Agreement, the Offer Documents, the ASX Listing Rules, the official operating rules of ASX Settlement Pty Limited or by any other applicable laws, an order of a court of competent jurisdiction or a governmental agency.

#### 9.4.3.5 Termination events limited to materiality

The Underwriter may terminate the Underwriting Agreement at any time prior to Completion or such other time as specified below on the occurrence of any of the following events:

- any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, China, the United Kingdom, the United States of America or in the international financial markets of those countries or any material adverse change occurs in national or international political, financial or economic conditions, in each case the effect of which is that, in the reasonable opinion of the Underwriter, reached in good faith after consultation with the Company, it is impracticable to market the Offer or to enforce contracts to issue, allot or transfer the Shares or that the success of the Offer is likely to be adversely affected;
- termination (other than those that terminate due to the effluxion of time) or an amendment of any material contract of the Company or a Related Body Corporate in both cases which have a material adverse effect on the Company;
- any information supplied by or on behalf of the Company to the Underwriter in relation to the Company, a Related Body Corporate or the Offer as part of the due diligence process is or becomes misleading or deceptive in a material respect including by omission;
- any ASX condition affecting ASX in giving final approval to quotation of the underwritten Shares is not completed, fulfilled or waived by ASX so as to result in the underwritten Shares being not granted official quotation by the date agreed in the Underwriting Agreement;
- hostilities, political or civil unrest not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities, political or civil unrest occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, the United Kingdom, any member state of the European Union, Japan, Singapore, Hong Kong, or the Peoples Republic of China or a significant terrorist act is perpetrated on any of those countries and such an event will have a material adverse effect;
- trading in securities generally has been suspended or materially limited, for at least one trading day, by any of the New York Stock Exchange, the London Stock Exchange, the Hong Kong Stock Exchange, New Zealand Stock Exchange or ASX;
- other than as contemplated in the Prospectus, a change in the Board or the offices of chief executive officer or chief financial officer, or the resignation of any of Gordon Starkey, Samuel Sun, Monica Watt, or Darryl Garber;
- the Company does not provide a closing certificate in the manner required by the Underwriting Agreement;
- the Company or a Related Body Corporate issues a public statement concerning the Offer which has not been approved by the Underwriter under the Underwriting Agreement;
- the Company materially breaches any of their obligations under the Underwriting Agreement, including as a result of a change to the constitution of the Company;
- any representation or warranty contained in the Underwriting Agreement is breached or becomes false, misleading or incorrect;
- except as contemplated by or disclosed in the Prospectus, an event specified in section 652C(1) or section 652C(2) Corporations Act, but replacing ‘target’ with ‘Company’;
- the Company or a Related Body Corporate contravenes the Corporations Act, the ASX Listing Rules, its constitution, or any other applicable law or regulation, or fails to comply with a requirement, order or request made by or on behalf of the ASIC, ASX or any governmental agency in connection with the Offer; or any agreements entered into by it in connection with the Offer; or
- any of the following occurs which does or is likely to prohibit, materially restrict or regulate the Offer or materially reduce the likely level of valid Applications or materially affects the financial position of the Company or has a material adverse effect of the success of the Offer:
  - the introduction of legislation into the Parliament of the Commonwealth of Australia or of any State or Territory of Australia;
  - the public announcement of prospective legislation or policy by the Federal Government or the Government of any State or Territory or the Reserve Bank of Australia ; or
  - the adoption by ASX or their respective delegates of any regulations or policy.

# 9 Additional Information

## 9.5 Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

### 9.5.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

Summaries of the significant rights and liabilities attaching to the Shares and of the other material provisions of the Constitution are set out below.

This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that ELMO is admitted to the Official List.

### 9.5.2 Rights attaching to shares

The rights attaching to the Shares are set out in the Constitution and are, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

The principal rights, liabilities and obligations of the Shareholders are summarised below.

### 9.5.3 Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a Shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

### 9.5.4 Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of ELMO justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

See Section 4.15. for the Company's dividend policy.

### 9.5.5 Issue of further Shares

The Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue or grant options for, or otherwise dispose of, Shares on such terms as the Board decides.

### 9.5.6 Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. The rights attached to a class of Shares may be varied or cancelled by:

- the holders of at least 75% of the issued Shares in the class consenting in writing; or
- a special resolution passed at a separate meeting of the holders of Shares in that class.

### 9.5.7 Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Share, Shares may be transferred in accordance with the ASX Settlement Operating Rules, any other ASX requirements and the Corporations Act or via a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

### 9.5.8 General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote, at general meetings of ELMO and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. ELMO must give at least 28 days' written notice of a general meeting.

### 9.5.9 Winding up

Subject to the Constitution, the Corporations Act and any preferential rights attaching to any class or classes of Shares, Shareholders will be entitled on a winding up to a share in any surplus assets of ELMO in proportion to the Shares held by them. If ELMO is wound up, the liquidator may, with the sanction of a special resolution, divide the whole or part of ELMO's property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

### 9.5.10 Unmarketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares which constitute less than a marketable parcel by following the procedures set out in the Constitution.

### 9.5.11 Proportional takeover provisions

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

### 9.5.12 Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of nine Directors, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at general meetings of ELMO.

No Director (excluding any managing director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing Directors or to fill a casual vacancy on the Board, and that Director (apart from the managing director) will then hold office until the conclusion of the next annual general meeting of ELMO.

#### **9.5.13 Directors – voting**

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote.

#### **9.5.14 Directors – remuneration**

Under the Constitution, the Board may decide the remuneration from ELMO to which each Director is entitled for his or her services as a Director. However the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by ELMO in general meeting. As at the Prospectus Date, this amount is fixed at \$750,000 (inclusive of superannuation). The remuneration of a Director (who is not a managing director or an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

Directors may be paid for travel and other expenses incurred in attending to ELMO affairs, including attending and returning from meetings of Directors or committees or general meetings. Any Director who devotes special attention to the business of ELMO or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of ELMO.

Details of the remuneration of the Directors' is set out in Section 6.3.2

#### **9.5.15 Powers and duties of Directors**

The business and affairs of ELMO are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within ELMO's power and the powers that are not required by law or by the Constitution to be exercised by ELMO in general meeting.

#### **9.5.16 Preference Shares**

ELMO may issue preference shares including preference shares which are, or at the option of ELMO or holders are, liable to be redeemed or convertible to ordinary shares. The rights attaching to preference shares are those set out in the Constitution unless other rights have been approved by special resolution of ELMO.

#### **9.5.17 Amendment**

The Constitution may be amended only by a special resolution passed by Shareholders.

### **9.6 Share capital**

As at the Prospectus Date the only class of security on issue by ELMO is Shares.

### **9.7 Litigation and claims**

The Company has filed a claim in the District Court of Queensland against Queensland Health with respect to unpaid invoiced amounts in the total amount of \$621,775. Queensland Health has filed a defence to the claim. The matter is still to be resolved. The amount claimed has not been budgeted or accounted for in any of the financial information disclosed in the Prospectus.

Subject to the above, as at the Prospectus Date, the Directors are not aware of any litigation of a material nature instituted, pending or threatened involving ELMO.

### **9.8 Summary of tax issues for Australia tax resident investors**

#### **9.8.1 Summary of tax issues for Australian tax resident investors**

The comments in this Section 9 provide a general outline of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus and that hold Shares in ELMO on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their shares on capital account.

This summary does not consider the consequences for foreign resident Shareholders, insurance companies, banks, Shareholders that hold their shares on revenue account or carry on a business of trading in shares, Shareholders who are exempt from Australian tax, or Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the Income Tax Assessment Act 1997.

The summary in this Section is general in nature and is not exhaustive of all Australian tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of the Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in this Section is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this Prospectus. The summary does not take into account the tax law of countries other than Australia.



## 9 Additional Information

Tax laws are complex and subject to ongoing change. The tax consequences discussed in these summaries do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the income tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act.

### 9.8.2 Dividends: Australian resident individuals and complying superannuation entities

Where dividends on a Share are paid by ELMO, those dividends will constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credits attached to that dividend.

The rate of tax payable by each Australian Shareholder that is an individual will depend on the individual circumstances of the Shareholder and his/her prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a tax offset equal to the franking credits attached to the dividend subject to being a qualified person (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by ELMO is unfranked, the Shareholder will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

### 9.8.3 Dividends: corporate Shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credits in their assessable income. A tax offset is then allowed up to the amount of the franking credits on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the dividend received. Such corporate Shareholders can then pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.

Excess franking credits received by a corporate Shareholder cannot give rise to a refund, but may in certain circumstances be converted into carry forward tax losses.

### 9.8.4 Dividends: trusts and partnerships

Australian tax resident Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the dividend and franking credits in determining the net income of the trust or partnership. A beneficiary, trustee or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership as the case may be.

### 9.8.5 Shares held 'at risk'

To be eligible for the benefit of franking credits and tax offset a Shareholder must satisfy both the holding period and related payment rules. This requires that a Shareholder hold the Shares in ELMO "at risk" for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (for example through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares "at risk". In addition, a Shareholder must not be obliged to make a related payment in respect of any dividend, unless they hold the Shares "at risk" for the required holding period around the dividend dates.

Where these rules are not satisfied the Shareholder will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000. Special rules apply to trusts and beneficiaries.

Shareholders should obtain their own professional tax advice to determine if these requirements, as they apply to them, have been satisfied.

On 14 May 2013, the former Federal Government announced changes that may apply to deny tax offsets to certain dividend washing arrangements. On 29 May 2014, legislation was introduced into Parliament to enact the proposed amendment. Shareholders should consider the impact of this proposed change together with the broader integrity provisions that apply to the claiming of tax offsets given their own personal circumstances.

### 9.8.6 Capital gains tax (CGT) implications for Australian tax resident Shareholders on a disposal of Shares

The disposal of a Share by a Shareholder will be a CGT event. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the share (broadly, the amount paid to acquire the share plus any transaction costs incurred in relation to the acquisition or disposal of the shares). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds received from the sale of the shares.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for more than 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as Trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Shareholder is the trustee of a trust that has held the Shares for more than 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss will be realised where the reduced cost base of the share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

#### 9.8.7 Tax File Numbers

Shareholders are not required to quote their tax file number (TFN), or where relevant their ABN, to ELMO. However, if a valid TFN, ABN or exemption details are not provided, Australian tax may be required to be deducted by ELMO from distributions and/or unfranked dividends at the maximum marginal tax rate plus the Medicare levy. Australian tax should not be required to be deducted by ELMO in respect of fully franked dividends.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

#### 9.8.8 Stamp Duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their Shares, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in ELMO. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of their Shares whilst ELMO remains listed.

#### 9.8.9 Australian Goods and Services Tax (GST)

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in ELMO regardless of whether or not the Shareholder is registered for GST.

Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect relevant to their particular circumstances.

No GST should be payable by Shareholders on receiving dividends distributed by ELMO.

### 9.9 Consents to be named and disclaimers of responsibility

Each of the following entities has consented, and as at the Prospectus Date has not withdrawn, its consent, to:

- be named in this Prospectus in the form and context in which it is named; and
- the inclusion of the following information in this Prospectus, in the form and context in which they are included (and all other references to this information):

Entity	Statement included
Blackpeak Capital Pty Ltd	None
Deloitte Corporate Finance Pty Limited	Deloitte Corporate Finance Pty Limited has consented to the inclusion of its Investigating Accountant's Report in Section 8
Deloitte Touche Tohmatsu	None
Deloitte Tax Services Pty Ltd	None
Wilsons	None
Norton Rose Fulbright Australia	None
Frost & Sullivan	References to its report "Independent Market Report: Human Resource Management Software Market" issued March 2017, commissioned by ELMO
Link Market Services	None

No entity or person referred to above has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each of the persons and entities referred to above has not authorised or caused the issue of this Prospectus, does not make any offer of Shares and, subject to the law, expressly disclaims and takes no responsibility for any statements or omissions in this Prospectus except as stated above.

In this regard it is noted that Chapter 6D of the Corporations Act imposes a liability regime on the Company (as offeror of the Shares), the Directors, persons named in the Prospectus with their consent as having made a statement in the Prospectus and the persons involved in a contravention in relation to the Prospectus, with regard misleading or deceptive statements made in the Prospectus. Although the Company bears the primary responsibility for the Prospectus, other parties involved in the preparation of the Prospectus can also be responsible for certain statements in it.

## 9 Additional Information

### 9.10 Ownership restrictions

#### 9.10.1 General foreign selling restrictions

The sale and purchase of Shares in ELMO is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This section contains a general description of these laws.

#### 9.10.2 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in ELMO.

#### 9.10.3 Foreign Acquisitions and Takeovers Act

Generally, the Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**) applies to acquisitions of shares and voting power in a company of 20% or more by a single foreign person and its associates (**substantial interest**), or 40% or more by two or more unassociated foreign persons and their associates (**aggregate substantial interest**). Where a foreign person holds a substantial interest in ELMO or foreign persons hold an aggregate substantial interest in ELMO, ELMO itself will be a "foreign person" for the purposes of the FATA.

Where an acquisition of a substantial interest or an aggregate substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Federal Government's Foreign Investment Policy (**FATA Policy**) or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

In addition, in accordance with the FATA Policy, acquisitions of a direct investment in an Australian company by foreign Governments and their related entities should be notified to the Foreign Investment Review Board for approval, irrespective of value. According to the FATA Policy, a "direct investment" will typically include any investment of 10% or more of the shares (or other securities or equivalent economic interest or voting power) in an Australian company but may also include investment of less than 10% where the investor is building a strategic stake in the target or obtains potential influence or control over the target investment.

### 9.11 Foreign Offer restrictions

No action has been taken to register or qualify the Shares that are the subject of the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia. The Offer is not an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.

#### 9.11.1 South Africa

The Offer is made only to South African addressees acting as principal, to the extent that the minimum Application Monies payable by such addressee is ZAR1 000 000 (one million Rand). Therefore, the Offer does not constitute an "offer to the public" in the Republic of South Africa, as defined in the South African Companies Act, 2008 (**SA Companies Act**). Accordingly, this Prospectus does not, nor does it intend to, constitute a "registered prospectus" as contemplated in Chapter 4 of the SA Companies Act, nor will it be registered with the Companies and Intellectual Property Commission of South Africa.

#### 9.11.2 Hong Kong

##### WARNING

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document has not been registered by the Registrar of Companies in Hong Kong pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32) of the Laws of Hong Kong (**CWMO**).

Accordingly: (i) the Shares may not be offered or sold in Hong Kong by means of any document other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong (SFO) and any rules made under the SFO, or in other circumstances which do not result in the document being a "prospectus" as defined in section 2(1) of the CWMO or which do not constitute an offer to the public within the meaning of the CWMO or an invitation to the public within the meaning of the SFO; and (ii) this document must not be issued, circulated or distributed in Hong Kong other than (1) to "professional investors" as defined in the SFO and any rules made under the SFO, (2) to persons and in circumstances which do not result in this document being a "prospectus" as defined in section 2(1) of the CWMO or which do not constitute an offer to the public within the meaning of the CWMO or an invitation to the public within the meaning of the SFO or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFO and CWMO.

### 9.11.3 New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (FMCA). The Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMCA;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMCA;
- is large within the meaning of clause 39 of Schedule 1 of the FMCA;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMCA; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMCA.

### 9.11.4 Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision(4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (SFA), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

If you are in Singapore this document has been given to you on the basis that you are (i) an “institutional investor” (as defined in the SFA) or (ii) a “relevant person” (as defined in Section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

## 9.12 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications under this Prospectus are governed by the law applicable in New South Wales and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of New South Wales and of the Commonwealth of Australia.

## 9.13 Authorisation of this Prospectus

Each director of ELMO has authorised the issue of this Prospectus and has consented to its lodgement with ASIC and has not withdrawn that consent as at the Prospectus Date.





# 10

## SUMMARY OF KEY ACCOUNTING POLICIES

## 10.1 Basis of preparation

The Historical Financial Information has been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

### 10.1.1 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 ELMO's accounting policies.

Significant accounting judgements include:

- Provision for impairment of receivables
- Capitalisation of Software Development costs and their useful economic life
- Identification and valuation of intangible assets acquired in a business combination
- Recoverable amount of goodwill and other intangibles
- Recoverability of deferred tax assets

These are described in the respective sections below.

## 10.2 Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company at the end of the reporting period.

Subsidiaries are all those entities over which the Company has control. The Company 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.

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.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

## 10.3 Functional and presentational currency

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

### 10.3.1 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.

### 10.3.2 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.

## 10.4 Revenue

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

### 10.4.1 Rendering of services

Services revenue is predominantly from recurring revenues associated with the cloud-based Talent Management Software Solutions. The agreements with clients do not include general rights of return and do not provide clients with the right to take possession of the software supporting the services being provided. As such, revenue is recognized in equal monthly amounts over the life of the agreement, usually a 3 year term, when all of the following criteria are achieved:

- There is persuasive evidence of an agreement;
- The service has been provided to the client;
- Collection of the fees is reasonably assured; and
- The amount of fees to be paid by the client is fixed or determinable.

### 10.4.2 Other revenue

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



# 10 Summary of key accounting policies

## 10.4.3 Interest

Interest revenue 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.

## 10.4.4 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 as revenue during the period, or periods in which the expenses for which the grants are intended to compensate are recognised.

If the Government grant cannot be determined with reasonable certainty, then the grant is recognised as revenue when it is received.

## 10.5 Taxation

Income tax expense/benefit represents the sum of the tax currently payable/receivable and deferred tax.

## 10.6 Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

The major impact on the income tax expense is the benefit obtained from the Research & Development Tax Incentive that is being received as a tax refund.

## 10.7 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 and unused tax losses only if 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.

## 10.8 Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

## 10.9 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

## 10.10 Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. 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. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

## 10.11 Property, plant and equipment

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.

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 as follows:

- Leasehold improvements    3-10 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.

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.

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. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

## 10.12 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

## 10.13 Intangible assets

Intangibles include the capitalisation of costs in relation to software development, capitalization of incremental costs relating to sales commissions on customer contracts, goodwill arisen from the acquisition of the subsidiaries' net assets and the fair value of customer relationships identified as part of the acquisition.

### 10.13.1 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.

Software development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the 3 year useful life of the software.

### 10.13.2 Capitalised sales commission costs

Commission costs paid to employees as a remuneration for securing a new contract are amortised on a straight-line basis over the period of the contract (1-3 years).

### 10.13.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquired business. Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is allocated to the Company's cash-generating units or groups of cash-generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the business sold.

# 10 Summary of key accounting policies

## 10.13.4 Customer relationships

ELMO measures the carrying values of customer relationships acquired in a business combination by reference to the fair value as at acquisition date less related amortisation based on expected useful lives. The fair value is determined based on a methodology adopted involving subjective underlying assumptions, including cash flow forecasts, discount rates, attrition rates and assessment of useful lives. The customer relationships are being amortised over seven years.

## 10.14 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.

## 10.15 Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

## 10.16 Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

## 10.17 Employee benefits

### 10.17.1 Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

### 10.17.2 Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## 10.18 Issued 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.



# 11 GLOSSARY

# 11 Glossary

Term	Meaning
~	Approximately
<b>AASB</b>	Australian Accounting Standards Board
<b>ABN</b>	Australian Business Number
<b>ABS</b>	Australian Bureau of Statistics
<b>ACN</b>	Australian Company Number
<b>Admission</b>	Admission of the Company to the Official List, following completion of the Offer
<b>AHRI</b>	Australian Human Resources Institute
<b>ANZ</b>	Australia and New Zealand
<b>Applicant</b>	A person or entity who submits an Application Form
<b>Application Form</b>	An application form attached to this Prospectus
<b>Application Monies</b>	The money received by the Company pursuant to the Offer (excluding the Employee Gift Offer), being the Offer Price multiplied by the number of Shares for which an Applicant applies
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited ACN 008 624 691 or the securities exchange operated by it (as the context requires)
<b>ASX Listing Rules</b>	The official listing rules of ASX
<b>ASX Recommendations</b>	ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition)
<b>ASX Settlement Operating Rules</b>	The ASX Settlement Operating Rules, being the operating rules of the Settlement Facility for the purposes of the Corporations Act
<b>AU\$ or \$</b>	Australian dollars
<b>Australian Accounting Standards</b>	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group interpretations
<b>Australian Accounting Standards Board</b>	The AASB is an Australian Government agency under the <i>Australian Securities and Investments Commission Act 2001</i>
<b>AWS</b>	Amazon Web Services
<b>Board</b>	The board of directors of the Company
<b>Broker</b>	Any ASX participating organisation selected by the Lead Manager to act as Broker to the Offer
<b>Broker Firm Offer</b>	The offer of new Shares under this Prospectus to Australian resident retail clients of Brokers who have received a firm allocation from their Brokers
<b>Bulletproof</b>	Bulletproof Group Limited ABN 84 148 162 092
<b>CAGR</b>	Compound Annual Growth Rate
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CGT</b>	Capital gains tax
<b>CHES</b>	Clearing House Electronic Subregister System, operated by ASX Settlement
<b>Closing Date</b>	The date on which the Offer closes, being Tuesday, 20 June 2017, subject to variation by ELMO and the Lead Manager without prior notice
<b>Cloud Services Agreement</b>	Agreement between ELMO and Bulletproof Group Limited for the provision of AWS and AWS support services
<b>Company</b>	ELMO Software Limited ACN 102 455 087
<b>Completion</b>	Settlement and allotment of Shares under the Offer
<b>Constitution</b>	The constitution of the Company from the date of Admission as amended from time to time
<b>COO</b>	Chief Operating Officer



Term	Meaning
<b>Core HR</b>	HR administration solutions
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth)
<b>CTO</b>	Chief Technology Officer
<b>Customer retention rate</b>	Customer retention is calculated by dividing the number of customers in the reference period who were customers at the end of the prior period by the number of customers at the end of the prior period
<b>Deloitte</b>	Deloitte Corporate Finance Pty Limited ACN 003 833 127
<b>Directors</b>	The directors of the Company from time to time
<b>EBIT</b>	Earnings Before Interest and Income Tax
<b>EBITDA</b>	Earnings Before Interest, Income Tax, Depreciation and Amortisation
<b>Eligible Gift Employees</b>	Persons who are resident in Australia and New Zealand who are permanent full-time, permanent part-time employees (including fixed term employees) of ELMO, or a subsidiary of ELMO, as at 5.00pm (Sydney time) on the Prospectus Date (provided that they remain so employed and have not been given notice to terminate employment at the Closing Date). Employees who are Directors are not Eligible Gift Employees
<b>ELMO</b>	ELMO Software Limited ACN 102 455 087
<b>Employee Gift Offer</b>	The offer of New Shares under this Prospectus to Eligible Gift Employees
<b>Escrow period</b>	In respect of the Escrowed Shareholders, the period ending on the dates set out in Section 7.7
<b>Escrowed Shareholders</b>	Each of the Existing Shareholders that is, or will be, subject to escrow on their Shares as detailed in Section 7.7.
<b>Existing Shareholders</b>	Persons owning Shares in the Company prior to the Offer
<b>Existing Shares</b>	Shares on issue prior to the Prospectus Date
<b>Financial Information</b>	Has the meaning described in Section 4.1
<b>Forecast Financial Information</b>	Has the meaning described in Section 4.1
<b>Forecast period</b>	Financial year ending 30 June 2017 and financial year ending 30 June 2018
<b>FY14</b>	The financial year ending 30 June 2014
<b>FY15</b>	The financial year ending 30 June 2015
<b>FY16</b>	The financial year ending 30 June 2016
<b>FY17</b>	The financial year ending 30 June 2017
<b>FY18</b>	The financial year ending 30 June 2018
<b>GST</b>	Goods and Services Tax or similar tax imposed in Australia
<b>HCM</b>	Human Capital Management
<b>HIN</b>	Holder Identification Number
<b>HPEP</b>	The High Performer Equity Plan established by the Company
<b>HRINZ</b>	Human Resources Institute of New Zealand
<b>IFRS</b>	International Financial Reporting Standards
<b>Institutional Investor</b>	An investor to whom offers or invitations in respect of securities may be made without the need for a disclosure document, including in Australia, persons to whom offers or invitations may be made without the need for a lodged prospectus under section 708(8) of section 708(1) of the Corporations Act, provided that such a person is not located in the United States and is not a US Person or acting for the account or benefit of a US person
<b>Institutional Offer</b>	The invitation to Institutional Investors under this Prospectus to acquire Shares, as described in Section 7
<b>Investigating Accountant</b>	Deloitte Corporate Finance Pty Limited ACN 003 833 127
<b>Investigating Accountant's Report</b>	The report prepared by the Investigating Accountant in Section 8
<b>IP</b>	Intellectual Property



# 11 Glossary

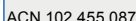
Term	Meaning
<b>IPO</b>	Initial Public Offering
<b>large organisations</b>	Organisations employing 1,000 employees and above
<b>Lead Manager</b>	Wilsons
<b>LMS</b>	Learning Management System
<b>LTI program</b>	Long term incentive program
<b>Management</b>	The management team of ELMO
<b>Mid-market organisations</b>	Organisations employing between 100 and 1,000 employees
<b>New Shareholders</b>	Persons acquiring Shares under the Offer excluding any Existing Shareholders who acquire Shares under the Offer
<b>New Shares</b>	Shares issued under the Offer
<b>Non-executive Director</b>	A Non-executive Director of the Company
<b>Offer</b>	The offer of Shares under this Prospectus
<b>Offer Price</b>	\$2.00 per Share
<b>Offer Proceeds</b>	Offer Price multiplied by the number of Shares issued under the Offer (excluding the Employee Gift Offer)
<b>Official List</b>	The official list of the ASX, of entities which have been admitted to, and not removed from, listing
<b>Official quotation</b>	The quotation of Shares on ASX for trading purposes
<b>Opening Date</b>	The date on which the Offer opens, being Tuesday, 13 June 2017
<b>Policies</b>	A course or principle of action adopted by the Company
<b>Priority Offer</b>	The offer of Shares to investors in Australia, Hong Kong, New Zealand, Singapore and South Africa nominated by the Company
<b>Pro forma Forecast Cash Flows</b>	Has the meaning given to that term in Section 4.1
<b>Pro forma Forecast Financial Information</b>	Has the meaning given to that term in Section 4.1
<b>Pro forma Forecast Income Statements</b>	Has the meaning given to that term in Section 4.1
<b>Pro forma Historical Balance Sheet</b>	Has the meaning given to that term in Section 4.1
<b>Pro forma Historical Cash Flows</b>	Has the meaning given to that term in Section 4.1
<b>Pro forma Historical Financial Information</b>	Has the meaning given to that term in Section 4.1
<b>Pro forma Historical Income Statements</b>	Has the meaning given to that term in Section 4.1
<b>Prospectus</b>	This document (including the electronic form of the prospectus) and any supplementary or replacement prospectus in relation to this document
<b>Prospectus Date</b>	The date the Prospectus was lodged with ASIC, being 6 June 2017
<b>RCSA</b>	Recruitment & Consulting Services Association Australia & New Zealand
<b>Recurring revenue</b>	Recurring revenue is the portion of a company's revenue that is highly likely to continue in the future
<b>Revenue dollar retention rate</b>	Percentage of revenue from a selected group of customers that has been retained over a financial year
<b>SaaS</b>	Software-as-a-Service
<b>SCORM</b>	Sharable Content Object Reference Model
<b>SEEP</b>	The Senior Executive Equity Plan established by the Company
<b>Settlement</b>	Settlement in respect of the Shares which are the subject of the Offer

<b>Term</b>	<b>Meaning</b>
<b>Share</b>	A fully paid ordinary share in the Company
<b>Share Registry</b>	Link Market Services Limited ABN 54 083 214 537
<b>Shareholders</b>	Holders of Shares in the Company
<b>small to medium enterprises (SME)</b>	Organisations employing 100 employees and below
<b>SSA</b>	Share sale agreement
<b>Statutory Forecast Cash Flows</b>	Has the meaning given to that term in Section 4.1
<b>Statutory Forecast Financial Information</b>	Has the meaning given to that term in Section 4.1
<b>Statutory Forecast Income Statements</b>	Has the meaning given to that term in Section 4.1
<b>Statutory Historical Balance Sheet</b>	Has the meaning given to that term in Section 4.1
<b>Statutory Historical Cash Flows</b>	Has the meaning given to that term in Section 4.1
<b>Statutory Historical Financial Information</b>	Has the meaning given to that term in Section 4.1
<b>Statutory Historical Income Statements</b>	Has the meaning given to that term in Section 4.1
<b>STI plan</b>	Short term incentive plan
<b>Techni Works</b>	Techni Works Pty Ltd
<b>TFN</b>	Tax file number
<b>TSR</b>	Total Shareholder Return
<b>U.K.</b>	United Kingdom
<b>U.S.A.</b>	United States of America
<b>Underwriter</b>	Wilsons
<b>Underwriting Agreement</b>	The underwriting agreement dated 6 June 2017 between the Company and Underwriter in connection with the Offer, as described in Section 9.4.3
<b>US Securities Act</b>	US Securities Act of 1933
<b>US\$</b>	United States dollars
<b>Wilsons</b>	Wilsons Corporate Finance Limited ACN 65 057 547 323
<b>You</b>	The investors under this Prospectus, and Your has a corresponding meaning



# 12

## APPLICATION FORMS



Adviser Code

ELMO BRO001



# Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the Application Form.

The Shares to which this Application Form relates are fully paid ordinary shares in ELMO (**Shares**). Further details about the Shares are contained in the Prospectus dated 6 June 2017 issued by ELMO. The Prospectus will expire on 6 July 2018. While the Prospectus is current, ELMO will send paper copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

ASIC requires that a person who provides access to an electronic application form must provide access, by the same means and at the same time, to the relevant Prospectus. This Application Form is included in the Prospectus.

- A** Insert the number of Shares you wish to apply for. The Application must be for a minimum of \$2,000 worth of Shares and thereafter in multiples of 500 Shares. You may be issued all of the Shares applied for or a lesser number at the discretion of the Company and the Lead Manager to the Offer.
- B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the Offer Price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
- C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title.
- D** Enter your Tax File Number (**TFN**) or exemption category. Business enterprises may alternatively quote their Australian Business Number (**ABN**). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, ELMO will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.
- E** Please enter your postal address for all correspondence. All communications to you from ELMO and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (**HIN**) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to ELMO's issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.
- If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

## CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
<b>Individual</b> Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
<b>Company</b> Use company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
<b>Joint Holdings</b> Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
<b>Trusts</b> Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
<b>Deceased Estates</b> Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
<b>Minor (a person under the age of 18 years)</b> Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
<b>Partnerships</b> Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
<b>Long Names</b>	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
<b>Clubs/Unincorporated Bodies/Business Names</b> Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
<b>Superannuation Funds</b> Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.



ELMO SOFTWARE LIMITED

ACN 102 455 087

Broker Code

Adviser Code

## Broker Firm Offer Application Form

This is an Application Form for Shares in ELMO Software Limited ACN 102 455 087 (ELMO) under the Broker Firm Offer on the terms set out in the Prospectus dated 6 June 2017. Defined terms in the Prospectus have the same meaning when used in this Application Form. You may apply for a minimum of \$2,000 worth of Shares and in multiples of 500 Shares thereafter. This Application Form and your cheque or bank draft must be received by your Broker by the deadline set out in their offer to you.

**This Application Form is important. If you are in doubt as to how to deal with this Application Form, please contact your accountant, financial adviser, stockbroker, lawyer or other professional adviser. The Prospectus contains information relevant to a decision to invest in Shares and you should read the entire Prospectus, including Section 5 on Risks, carefully before applying for Shares.**

The Share Registry's privacy policy (Privacy Policy) also sets out important information relating to the collection, use and disclosure of all personal information that you provide to the Company. Please ensure that you and all relevant individuals have read the Privacy Policy carefully before submitting this Application Form. The Privacy Policy can be found on the website at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

Shares applied for

Price per Share

Application Monies

**A**

at

**A\$2.00****B A\$**

(minimum \$2,000 worth of Shares, thereafter in multiples of 500)

**PLEASE COMPLETE YOUR DETAILS BELOW** (refer overleaf for correct forms of registrable names)

Applicant #1

Surname/Company Name

**C**

Title

First Name

Middle Name

Joint Applicant #2

Surname

Title

First Name

Middle Name

Designated account e.g. &lt;Super Fund&gt; (or Joint Applicant #3)

TFN/ABN/Exemption Code

First Applicant

Joint Applicant #2

Joint Applicant #3

**D**

TFN/ABN type – if NOT an individual, please mark the appropriate box

☐

Company

☐

Partnership

☐

Trust

☐

Super Fund

**PLEASE COMPLETE ADDRESS DETAILS**

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

**E**

Unit Number/Level

Street Number

Street Name

Suburb/City or Town

State

Postcode

Email address (only for purpose of electronic communication of shareholder information)

CHESS HIN (if you want to add this holding to a specific CHESS holder, write the number here)

**F****X** 

*Please note: if you supply a CHESS HIN but the name and address details on your Application Form do not correspond exactly with the registration details held at CHESS, your Application will be deemed to be made without the CHESS HIN and any Shares issued as a result of the Offer will be held on the issuer sponsored sub-register.*

Telephone Number where you can be contacted during Business Hours

Contact Name (PRINT)

**G**

Cheques or bank drafts should be drawn up according to the instructions given by your Broker.

Cheque or Bank Draft Number

BSB

Account Number

**H**

-

Total Amount

**A\$****LODGEMENT INSTRUCTIONS**

You must return your Application Form so it is received by your Broker by the deadline set out in their offer to you.

**ELMO BRO001**



# Your Guide to the Application Form

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<b>Trusts</b> Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
<b>Deceased Estates</b> Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
<b>Minor (a person under the age of 18 years)</b> Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
<b>Partnerships</b> Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
<b>Long Names</b>	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
<b>Clubs/Unincorporated Bodies/Business Names</b> Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
<b>Superannuation Funds</b> Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

# Corporate Directory

## **ELMO Software Limited**

### **Registered office:**

Level 12, 680 George Street  
Sydney NSW 2000

## **Financial Adviser**

### **Blackpeak Capital Pty Ltd**

Level 5, 55 Harrington Street  
The Rocks, NSW, 2000, Australia

## **Lead Manager & Underwriter**

### **Wilsons**

Level 32 Governor Macquarie Tower  
1 Farrer Place, Sydney, NSW, 2000

## **Legal adviser**

### **Norton Rose Fulbright Australia**

Level 18, Grosvenor Place  
225 George Street, Sydney, NSW, 2000

## **Investigating Accountant**

### **Deloitte Corporate Finance Pty Limited**

Grosvenor Place  
225 George Street, Sydney, NSW, 2000

## **Auditor**

### **Deloitte Touche Tohmatsu**

Grosvenor Place  
225 George Street, Sydney, NSW, 2000

## **Share Registry**

### **Link Market Services Pty Limited**

Level 12, 680 George Street  
Sydney South, NSW, 2000

## **Offer website**

[www.elmotalent.com.au](http://www.elmotalent.com.au)

## **Corporate website**

[www.elmotalent.com.au](http://www.elmotalent.com.au)

ELMO