

7 October 2020

ELMO Software Limited

(ASX:ELO)



ELMO acquires UK HR platform Breathe

Provides access to new market segment and expands UK footprint

Key Highlights

- Breathe is a fast-growing, scalable, self-service HR platform, based in the UK
- Provides entry to a new market segment: the small business market (<50 employees)
- Expands ELMO's UK footprint with more than 6,700 customers in the UK and access to a A\$1.5 billion market segment
- ARR of £3.6 million^{1,2} (A\$6.5 million) and has been growing over 30% annually
- High customer retention of over 85%
- Revenue 100 per cent subscription based
- Breathe platform to be launched in Australia/New Zealand, a new A\$660 million market segment
- ELMO modules to be integrated into Breathe platform for cross sale
- FY21 ARR and revenue guidance upgraded – organic guidance reaffirmed

Sydney, Australia 7 October 2020: ELMO Software Limited ('ELMO') today announces the acquisition of Breathe, a fast-growing, scalable HR platform for small businesses, based in the United Kingdom (UK). The acquisition provides ELMO with entry to a new market segment, the small business market (<50 employees), while at the same time expanding ELMO's footprint in the UK.

Founded in 2012, Breathe is a market leading self-service HR platform for small business. The self-service business model is highly scalable and makes it fast, easy and cost-effective for small businesses to digitise critical HR processes.

The transaction adds to ELMO's revenue and customer base. Breathe's annualised recurring revenue ('ARR') as of 31 August 2020 was £3.6 million (A\$6.5 million), which has been growing at over 30% annually. Revenue is 100 per cent subscription-based and recurring in nature. Breathe has a large and growing customer base in the UK with over 6,700 customers. Customer retention is high at over 85%. Breathe is EBITDA neutral having invested for growth. Founder Jonathan Richards will continue on as CEO of Breathe UK.

1. As at 31 August 2020

2. FX rate GBP/AUD = 1.80

The acquisition of Breathe facilitates access to a new market segment for ELMO: small business, with less than 50 employees. This new segment increases ELMO's Total Addressable Market (TAM) by A\$2.2 billion, to A\$11.4 billion, across Australia, New Zealand and the United Kingdom.

The transaction presents significant new revenue opportunities for ELMO. Breathe will be launched into the Australian and New Zealand markets, accessing a new A\$660 million market opportunity, leveraging ELMO's infrastructure and expertise. In addition, Breathe will cross-sell additional existing ELMO HR modules into its large UK customer base.

The purchase consideration consists of an initial payment of £18.0 million (A\$32.4 million) using a combination of cash and scrip. In addition, an earnout consideration is payable in cash subject to the achievement of financial targets. The earnout consideration is estimated to be £4.0 million (A\$7.2 million).

ELMO CEO and Co-founder Danny Lessem said: "The acquisition of Breathe is an important step in ELMO's evolution as a provider of cloud-based HR solutions. Strategically, Breathe is a very compelling, fast growing business. It provides ELMO with access to a new and attractive customer segment, complementary technology, and a significant UK footprint. The strategic crossovers and revenue opportunities are very meaningful, and our market opportunity has significantly expanded.

"We are now able to transform the way people are managed, either in office or remotely across all market segments, improving productivity, performance and overall wellbeing of millions of workers across Australia, New Zealand and also the United Kingdom."

As a result of the acquisition, ELMO provides the following updated guidance for FY21. Organic guidance provided in August is re-affirmed:

- Annualised Recurring Revenue (ARR): A\$72.5-78.5 million (*previously \$65-70 million*)
- Revenue A\$61.0-66.0 million (*previously \$57-61 million*)
- EBITDA A\$(3.5-7.5) million (*previously (\$4-7 million)*)

Webcast

ELMO management will host a webcast to discuss the transaction tomorrow at **9.30am** (Sydney AEST), 8 October 2020.

Webcast link:

<https://webcast.openbriefing.com/6602/>

Participants are encouraged to pre-register for the webcast. A replay of the webcast will be available shortly after the event on the ELMO investor website:

<https://investors.elmosoftware.com.au/Investors>

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About ELMO

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

For more information, please visit www.elmosoftware.com.au.