



ELMO Software Limited
ABN 13 102 455 087

ASX ANNOUNCEMENT

12 December 2017

Acquisition of Sky Payroll

Transaction Highlights

- Acquisition of Sky Payroll, a native cloud-based Australian SaaS payroll software system
- Payroll is a critical function in human resource (HR) administration, and represents a market opportunity of approximately \$600m¹ and a logical and complementary extension of ELMO's current integrated product suite, from nine to ten modules
- Pure SaaS, cloud-based subscription revenue model with similar attributes to ELMO's core business
- Strategically positions ELMO to leverage the opportunity presented by the Australian Tax Office's (ATO) mandatory Single Touch Payroll Reporting (STPR) event where companies will be required to have a compliant payroll solution by 1 July 2018
- Acquisition consideration of \$1.0m initial purchase price to be settled 50/50 in cash and scrip with 24-month escrow, a \$0.4m deferred payment and a \$0.4m uplift should performance targets be achieved
- Roger Graham, Sky Payroll's CEO and a technical founder who has over 20 years of experience in the specialised payroll domain, will join the ELMO management team to assist in growing the payroll arm of the business
- Acquisition of Sky Payroll aligns with ELMO's growth strategy, which is to supplement strong organic growth with the disciplined addition of selective and complementary technology that present the opportunity to cross sell ELMO's existing integrated product suite to an enlarged customer base

ELMO today announced the execution of a binding unconditional sale agreement to acquire the assets of Sky Payroll, a SaaS, cloud-based specialist payroll software solution for a consideration of \$1.4m. The acquisition will be funded by a mixture of cash and scrip. New shares will be issued at a price of \$3.53 per share, representing the 10-day volume weighted average price up to and including the date of the sale agreement (being 11 December 2018). The acquisition is expected to complete in early 2018.

Established in 2014, Sky Payroll is a pure HR cloud based payroll software solution for the Australian market. Over 28,000 hours of research and development have been invested into Sky Payroll's platform and more than \$300m of employment income has been processed using the system over the past three years. With a strong technical background, Sky Payroll CEO and founder Roger Graham has developed significant domain expertise in the specialised and complex field of cloud payroll software over the last 20 years while working in senior software engineering positions in established payroll firms. Sky Payroll is EBITDA neutral and on a pro forma basis, generated revenue of approximately \$150,000² over the last 12 months. ELMO aims to accelerate growth in this segment with its advanced distribution mechanism, sales and

¹ Frost and Sullivan – Payroll Market Report 2017

² Pro forma revenue reflects the annualised impact of new customers secured over the last twelve months



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marketing engine and deep industry relationships, while targeting the cross-sell opportunities available across its 500+ customer base.

Payroll is central to HR administration and presents as a logical, strategic and highly complementary fit to ELMO's current suite of modules. Following the acquisition, ELMO will have a more enhanced and integrated product suite to offer to its current and future customer base. In addition, now over 43% of payroll staff in the mid-market report into HR¹. This enables ELMO to leverage existing relationships for cross-sell opportunities as well as fostering new ones. The Australian and New Zealand payroll market is a \$600m¹ opportunity that is currently dominated by slow-moving legacy solutions.

The acquisition enables ELMO to enter into the lucrative cloud software payroll market with considerable timing and cost advantages over a "build in-house" approach. With ELMO's track record of software integration, ELMO will be able to offer its enlarged customer base and prospects a seamless and integrated solution including payroll, strengthening ELMO's competitive advantage over single point vendors and other human capital management providers.

Sky Payroll CEO and founder Roger Graham said, "Since 2014, we at Sky Payroll have focused on building an intuitive cloud-based payroll solution. To be successful in HR software, we identified the need for product breadth, scale and distribution strength. ELMO offers all of these components and as such we are very pleased to be joining the team."

ELMO CEO, Danny Lessem said, "We are delighted to welcome Roger Graham and his team to ELMO at this exciting time as we execute our accelerated growth strategy. Payroll is a cornerstone product that presents a great strategic opportunity for ELMO over the years to come. Indeed, this acquisition was recommended to us by our customers, recognising the complementary product fit and clear market need for an integrated suite of HR solutions including payroll with a single dashboard and reporting suite.

Once we have fully integrated Sky Payroll, we will be able to leverage our broadened, integrated suite of ten HR modules across our enlarged customer base. Most significantly, this strategic acquisition is well timed. It puts ELMO in an ideal position to benefit from the upcoming, "once in a generation" industry shift to Single Touch Payroll Reporting (STPR). Companies will need to have a compliant payroll solution in place which should lead to a higher than normal rate of payroll switching and help us gain some traction in an already established market. It also creates a strong point of difference to human capital management competitors and increases the barrier to entry for market entrants.

Our mandate is to capture market share in the Australian and New Zealand \$600m¹ payroll software market and replace the antiquated, legacy, fragmented, single point vendors with a clean integrated and cloud based HR and payroll solution. We look forward to diligently executing on our growth strategies and delivering the anticipated returns to shareholders over time."



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About ELMO

Established in 2002, ELMO is a cloud-based software provider that automates HR processes in the employee lifecycle from 'hire-to-retire'. The company offers customers a unified platform to streamline processes for employee administration, recruitment, onboarding, learning, performance and compliance training. ELMO operates on a Software as a Service (SaaS) business model based on recurrent subscription revenues.

For more information please visit www.elmotalent.com.au