

Elmo Software Limited
Appendix 4D
For the half-year year ended 31 December 2017

Company details

Name of entity:	Elmo Software Limited
ABN:	13 102 455 087
Reporting period:	For the half-year ended 31 December 2017
Previous period:	For the half-year ended 31 December 2016

Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	48% to	10,917
Loss from ordinary activities after tax attributable to the owners of Elmo Software Limited	up	54% to	(571)
Loss for the half-year attributable to the owners of Elmo Software Limited	up	54% to	(571)

Dividends

No dividend was paid during the half-year ended 31 December 2017 (2016: \$nil).

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

Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>5.51</u>	<u>32.85</u>

The net tangible asset per ordinary security is calculated based on 54,171,584 ordinary shares on issue at 31 December 2017 (2016: 39,966,054).

Control gained over entity

Entity	Quintessential Marketing Consulting Pty Limited and the assets of Quintessential Marketing Consulting
Date control gained	15 November 2017

	\$'000
Contribution of profit to the reporting entity's loss from ordinary activities before income tax during the period (where material)	40

Loss of control over entities

Not applicable.

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Other information requiring disclosure to comply with ASX listing rule 4.2A.3 is contained in, and should be read in conjunction with the Financial Statements, the notes to the Financial Statements and the Directors' Report for the half-year ended 31 December 2017 attached to this report.

This report is based on the Consolidated Financial Statements and Notes of Elmo Software Limited which have been reviewed by Deloitte Touche Tohmatsu.



Danny Lessem
Director



Trevor Lonstein
Director

27 February 2018
Sydney

Elmo Software Limited

ABN 13 102 455 087

**Interim financial statements for the half-year ended
31 December 2017**

Elmo Software Limited
Directors' report
For the half-year ended 31 December 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Elmo Software Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

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

James David McKerlie
Danny Isaac Lessem
David Charles Hancock
Trevor Rael Lonstein

Dividends

No dividend was paid during the half-year ended 31 December 2017 (2016: \$nil).

Operating and financial review

Principal activities

ELMO is one of Australia and New Zealand's leading providers of Software-as-a-Service (SaaS), cloud-based human resources software solutions.

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 (HR) related processes including recruitment, onboarding, performance management, learning and development, prebuilt courses, succession planning and rewards and recognition. 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 Human Capital Management (HCM) while increasing their productivity and reducing costs.

Significant changes to the business

On 15 November 2017, ELMO Software Limited acquired the net assets of two complementary HR software solutions, PeoplePulse and LiveSalary (Quinntessential Marketing Consulting) for a total maximum consideration of \$12m (see note 6). The acquisition included the assets and employee entitlements provisions of the following two specialised, SaaS based, HR management software solutions:

- PeoplePulse, an online employee and customer feedback survey platform that includes specialised HR surveys such as staff pulse surveys, onboarding surveys, training evaluations, net promoter scores and exit surveys; and
- LiveSalary, an online salary database and benchmarking platform to assist customers to better recruit, reward and retain employees.

PeoplePulse and LiveSalary's highly scalable modules accelerate ELMO's product release program. In addition, the acquisition represents a logical and complementary fit into ELMO's integrated HR Administration and Talent Management product suite.

Review of operations during the year

Certain financial information in the review of operations section below referencing Statutory Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") has been derived from the reviewed financial statements. The pro forma EBITDA, pro forma revenue and pro forma operating expenses are non-IFRS financial information and as such have not been reviewed in accordance with Australian Accounting Standards.

For the half-year ended 31 December 2017 (1H18), ELMO reported statutory revenue of \$10.9m (Half-year ended 31 December 2016 (1H2017): \$7.4m). ELMO's statutory loss before income tax, finance expenses, depreciation and amortisation was \$0.8m (1H2017: \$0.6m) and its statutory net loss after tax was \$0.6m (1H2017: loss of \$0.4m).

Elmo Software Limited
Directors' report
For the half-year ended 31 December 2017

In the ASX listing Prospectus published in June 2017, ELMO reported financial results and forecasts on a pro forma basis. For 1H18 adjustments were made for the acquisition of Quinttessential Marketing Consulting and non-recurring acquisition-related costs. For the prior half-year pro forma adjustments reflected the impact of the additional costs of existing as a listed entity, the acquisition of Techni Works, standalone public company costs and other non-recurring items.

For 1H18 ELMO's pro forma revenue was \$10.6m (1H2017: \$7.8m) and pro forma earnings before income tax, finance expenses, depreciation and amortisation for 1H18 was \$1.2m (HY2017: \$0.5m).

The growth in statutory revenue during the period was being driven by:

- Expansion of ELMO's customer base to 579 organisations (excluding Quinttessential Marketing Consulting customers);
- Acquisition of Quinttessential Marketing Consulting;
- Increased investment into ELMO's sales and marketing team;
- Enhanced brand awareness and reputation of ELMO and its product offering;
- Increased investment and traction in new and existing modules, resulting in more cross-sell and upsell opportunities amongst ELMO's customer base;
- Strong recurring revenues of 95% and high customer retention rates of 93%.

For 1H18, ELMO reported statutory operating expenses of \$11.0m (HY2017: \$7.1m) and adjusting for the impact of the acquisition of Quinttessential Marketing Consulting by excluding the revenue and operating costs for the 1.5 months to 31 December 2017 and other non-recurring acquisition costs in 1H18 and the acquisition of Techni Works, one-off IPO costs, standalone public company costs and non-recurring items in 1H18 the total pro forma operating expenses were \$10.1m (1H2017: \$7.6m). The key driver for the increase in operating expenses was ELMO's continued investment in future growth. There was increased investment into:

- ELMO's sales and marketing, which reported expenses of \$4.2m (pro forma), reflecting a 35% increase compared to pro forma 1H17;
- A 30% increase in pro forma general and administrative expenses inclusive of Depreciation and Amortisation for the 1H18 half year to \$5.7m (1H17: \$4.4m) driven by an increase in employment and operating costs due to strengthening of its infrastructure to scale operations;
- Increased investment in R&D;
- Expenses in relation to share options granted during the half year ended 31 December 2017.

A reconciliation between statutory EBITDA and pro forma EBITDA is provided below.

Reconciliation of EBITDA	Half-year ended 31 December 2017 \$000's	Half-year ended 31 December 2016 \$000's
Statutory EBITDA	785	570
Add/(less) net effects of:		
Acquisition of Quinttessential Marketing Consulting	(137)	-
Acquisition of Techni Works	-	274
Acquisition costs	531	-
One-off IPO costs	-	61
Additional listed company cost	-	(682)
Other non-recurring items	-	247
Pro forma EBITDA	1,179	470

Financial position

As at 31 December 2017, ELMO has no debt and a net cash balance of \$15.3m. ELMO's pro forma cash receipts for the half-year ended 31 December 2017 was \$10.8m, representing 108% of pro forma revenue for the period. The consolidated entity's strong cash position is due to ELMO's SaaS-based revenue model whereby customers typically enter into three year contracts and pay annual license fees in advance, resulting in positive cash flow.

Elmo Software Limited
Directors' report
For the half-year ended 31 December 2017

The consolidated entity's working capital, being current assets less current liabilities was a positive position of \$3.4m as at 31 December 2017 (30 June 2017: \$17.3m).

As a result of the above, the Directors believe the consolidated entity is in a strong and stable position to expand and grow its current operations.

Business growth strategy and likely developments

- **Greater usage from existing customers**

ELMO aims to increase usage of its solutions amongst the existing customer base by encouraging customers to subscribe to additional modules. ELMO plans to support this via further investment into sales and marketing and broadening its human resources software offering.

- **Increasing market penetration in Australia and New Zealand**

ELMO plans to accelerate its market penetration across Australia and New Zealand by increasing investment into its sales and marketing capabilities and initiatives to drive new customer wins.

- **Expand product offering**

ELMO recently launched its succession, HR administration (HR Core) and rewards and recognition modules to expand its solutions offering and aims to launch three new modules within the next two to three years.

- **Acquisitions**

ELMO believes that there is an opportunity to gain additional market share and/or acquire complementary technology through targeted acquisitions of other HR management software companies.

Matters subsequent to the end of the financial year

On 1 February 2018 ELMO completed the sale agreement to acquire the assets of Sky Payroll, a SaaS, cloud-based specialist payroll software solution for a maximum consideration of \$1.8m.

On 26 February 2018 ELMO executed a binding unconditional share sale agreement to acquire 100% of the share capital of Pivot Software, Australia and New Zealand's leading cloud based, SaaS Remuneration software provider for a maximum consideration of \$11.21m.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Rounding off amounts

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

Auditor's independence declaration

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

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

On behalf of the directors



Danny Lessem
Director



Trevor Lonstein
Director

27 February 2018
Sydney

27 February 2018

The Board of Directors
Elmo Software Limited
Westfield Tower One
Level 25, Suite 2502
520 Oxford Street
Bondi Junction NSW 2022

Dear Board Members

Elmo Software Limited

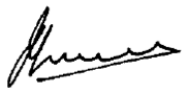
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Elmo Software Limited.

As lead audit partner for the review of the financial statements of Elmo Software Limited for the financial year half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner
Chartered Accountants

Elmo Software Limited
Contents
For the half-year ended 31 December 2017

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General information

The financial statements cover Elmo Software Limited as a consolidated entity consisting of Elmo Software Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Elmo Software Limited's functional and presentation currency.

Elmo Software Limited is a company limited by shares.

The financial statements were authorised for issue, in accordance with a resolution of directors, on February 2018. The directors have the power to amend and reissue the financial statements.

Elmo Software Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

		Consolidated	
	Note	31 December 2017	31 December 2016
		\$'000	\$'000
Revenue from rendering of services	3	10,917	7,374
Cost of sales		(924)	(904)
Gross profit		9,993	6,470
Interest income		144	13
Other income	4	58	81
Sales and marketing expenses		(4,310)	(3,124)
Research and development expenses		(250)	(63)
General and administrative expenses		(6,393)	(3,914)
Loss before income tax benefit		(758)	(537)
Income tax benefit		187	166
Loss after income tax benefit for the half-year attributable to the owners of Elmo Software Limited		(571)	(371)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the half-year attributable to the owners of Elmo Software Limited		(571)	(371)
Earnings per share		Cents	Cents
Basic earnings	13	(1.05)	(0.91)
Diluted earnings	13	(1.05)	(0.91)

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

Elmo Software Limited
Statement of financial position
As at 31 December 2017

		Consolidated	
	Note	31 December	30 June
		2017	2017
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		15,326	26,601
Trade and other receivables		4,593	3,568
Income tax and R&D refundable		317	503
Other current assets		584	372
Total current assets		<u>20,820</u>	<u>31,044</u>
Non-current assets			
Deferred tax		-	99
Property, plant and equipment		512	506
Intangible assets and capitalised costs	5	<u>20,299</u>	<u>5,971</u>
Total non-current assets		<u>20,811</u>	<u>6,576</u>
Total assets		<u>41,631</u>	<u>37,620</u>
Liabilities			
Current liabilities			
Trade and other payables		2,567	3,014
Business combination liability	6	4,088	1,000
Employee benefits		714	654
Revenue received in advance		10,096	9,072
Total current liabilities		<u>17,465</u>	<u>13,740</u>
Non-current liabilities			
Deferred tax		758	-
Employee benefits		123	115
Total non-current liabilities		<u>881</u>	<u>115</u>
Total liabilities		<u>18,346</u>	<u>13,855</u>
Net assets		<u>23,285</u>	<u>23,765</u>
Equity			
Issued capital	7	25,110	25,110
Accumulated losses	8	(1,869)	(1,298)
Reserves	9	44	(47)
Equity attributable to the owners of Elmo Software Limited		<u>23,285</u>	<u>23,765</u>
Total equity		<u>23,285</u>	<u>23,765</u>

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

Elmo Software Limited
Statement of changes in equity
For the half-year ended 31 December 2017

Consolidated	Issued capital \$'000	Foreign currency translation reserves \$'000	Share option reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016	350	-	-	(378)	(28)
Loss after income tax benefit for the half-year	-	-	-	(371)	(371)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(371)	(371)
Transactions with owners in their capacity as owners:					
Issue of F Class share capital	1,200	-	-	-	1,200
Reserves	-	-	-	-	-
Balance at 31 December 2016	1,550	-	-	(749)	801
Consolidated	Issued capital \$'000	Foreign currency translation reserves \$'000	Share option reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2017	25,110	(47)	-	(1,298)	23,765
Loss after income tax benefit for the half-year	-	-	-	(571)	(571)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(571)	(571)
Reserves	-	17	74	-	91
Balance at 31 December 2017	25,110	(30)	74	(1,869)	23,285

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

Elmo Software Limited
Statement of cash flows
For the half-year ended 31 December 2017

Note	Consolidated	
	31 December 2017 \$'000	31 December 2016 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	10,843	8,135
Payments to suppliers and employees (inclusive of GST)	(11,555)	(7,154)
	(712)	981
Interest and other finance costs paid	-	(11)
Income taxes (paid)/refunded	(28)	48
Net cash (used in)/from operating activities	(740)	1,018
Cash flows from investing activities		
Interest received	144	13
Payment for purchase of Techni Works Group, net of cash acquired	(535)	(1,044)
Payment for purchase of business assets, net of cash acquired	(8,051)	-
Payment of transaction costs for purchase of business assets	(303)	-
Payments for property, plant and equipment	(90)	(176)
Payments for intangibles	(1,700)	(1,329)
Net cash used in investing activities	(10,535)	(2,536)
Cash flows from financing activities		
Repayment of from related party advances	-	-
Proceeds from issue of shares	-	1,200
Net cash from financing activities	-	1,200
Net decrease in cash and cash equivalents	(11,275)	(318)
Cash and cash equivalents at the beginning of the half-financial year	26,601	3,016
Cash and cash equivalents at the end of the half-financial year	15,326	2,698

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting', as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The financial statements have been prepared on the basis of historical cost with cost based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise instructed.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the Directors' report and financial statements for the year ended 30 June 2017.

The principal accounting policies adopted are consistent with those of the consolidated financial statements as at and for the year ended 30 June 2017, unless otherwise stated.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Software development costs - Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

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.

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).

Note 1. Significant accounting policies (continued)

Customer list

The acquired customer list is amortised over management's best estimate of its useful life over 7 years on a straight-line basis.

Trademark

The trademark is treated as having an indefinite useful life because it is expected to contribute to net cash flows indefinitely and thus the trademark would not be amortised until its useful life is determined to be finite. It would be tested for impairment annually and whenever there is an indication that it may be impaired.

Share-based payment reserve

The share-based payment reserve represents the value of unvested shares and unissued shares as part of the share-based payment scheme. As the shares vest they will be transferred to share capital.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to ELMO. ELMO controls an entity when it 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 over the entity.

ELMO measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously held equity interest in the acquiree and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that ELMO incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent considerations are recognised in profit or loss.

Rounding off amounts

The Group is of a kind referred to in Australian Securities and Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with this instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2. Critical accounting judgements, estimates and assumptions

Business combinations

The fair value of intangible assets acquired in a business combination and the obligation to settle business combination earn out obligation requires a degree of estimation and judgement. The fair value of the customer list intangible was assessed using an excess earnings valuation methodology. The useful life has been estimated based on the expected attrition rate of the contracts being 7 years.

Trademark

The fair value of the trade mark intangible was assessed using a relief from royalty approach.

Note 3. Operating segments

Identification of reportable operating segments

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is disclosed in the statements and notes to the financial statements.

Geographical information

	Revenue from external customers		Geographical non-current assets	
	31 December 2017	31 December 2016	31 December 2017	30 June 2017
	\$'000	\$'000	\$'000	\$'000
Australia	10,571	7,175	20,774	6,538
New Zealand	171	-	31	32
Singapore	175	199	6	6
	<u>10,917</u>	<u>7,374</u>	<u>20,811</u>	<u>6,576</u>

The majority of the Group's revenue is generated from sales contracts with Australian, Singapore and New Zealand companies. The geographic split of this revenue across all companies is: a) Australia (91.17%, 2016: 93.51%); b) New Zealand (6.73%, 2016: 3.79%); c) Singapore (1.60%, 2016: 2.70%); d) other (0.50%, 2016: 0.00%).

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 4. Other income

	Consolidated	
	31 December 2017	31 December 2016
	\$'000	\$'000
Other income		
Government grants	58	72
Other income	-	9
	<u>58</u>	<u>81</u>

Note 5. Non-current assets - intangibles

	Consolidated	
	31 December	30 June
	2017	2017
	\$'000	\$'000
Software development costs	8,882	6,293
Less: Accumulated amortisation	<u>(4,748)</u>	<u>(3,521)</u>
	<u>4,134</u>	<u>2,772</u>
Capitalised sales commission costs	1,857	1,692
Less: Accumulated amortisation	<u>(1,224)</u>	<u>(930)</u>
	<u>633</u>	<u>762</u>
Customer list (acquired through business combinations)	3,430	410
Less: Accumulated amortisation	<u>(127)</u>	<u>(44)</u>
	<u>3,303</u>	<u>366</u>
Goodwill (acquired through business combinations)	12,095	2,071
Trademark (acquired through business combinations)	134	-
	<u>20,299</u>	<u>5,971</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Software development costs \$'000	Capitalised commission costs \$'000	Customer list \$'000	Trademark \$'000	Goodwill \$'000	Total \$'000
Consolidated						
Balance at 1 July 2016	2,241	710	-	-	-	2,951
Additions	2,225	539	-	-	-	2,764
Additions through business combinations	-	-	410	-	2,071	2,481
Amortisation expense	<u>(1,694)</u>	<u>(487)</u>	<u>(44)</u>	<u>-</u>	<u>-</u>	<u>(2,225)</u>
Balance at 30 June 2017	2,772	762	366	-	2,071	5,971
Additions	1,536	165	-	-	-	1,701
Additions through business combinations (note 6)	1,053	-	3,020	134	10,024	14,231
Amortisation expense	<u>(1,227)</u>	<u>(294)</u>	<u>(83)</u>	<u>-</u>	<u>-</u>	<u>(1,604)</u>
Balance at 31 December 2017	<u>4,134</u>	<u>633</u>	<u>3,303</u>	<u>134</u>	<u>12,095</u>	<u>20,299</u>

Goodwill is acquired through the acquisition of Quinttessential Marketing Consulting, please refer to Note 6 for further details.

An impairment loss, if any, is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is determined on a Fair Value Less Cost to Sell and as at 31 December 2017 there are no indicators to suggest that an impairment would occur.

Note 6. Acquisition of business assets

On 15 November 2017, ELMO Software Limited acquired the assets of Quinttessential Marketing Consulting under the terms of a sale and purchase agreement. The acquisition included the assets and employee entitlements provisions of the following two specialised, SaaS based, HR management software solutions:

- PeoplePulse, an online employee and customer feedback survey platform that includes specialised HR surveys such as staff pulse surveys, onboarding surveys, training evaluations, net promotor scores and exit surveys; and
- LiveSalary, an online salary database and benchmarking platform to assist customers to better recruit, reward and retain employees.

PeoplePulse and LiveSalary's highly scalable modules accelerate ELMO's product development program. In addition, the acquisition represents a logical and complementary fit into ELMO's integrated HR Administration and Talent Management product suite.

The Group incurred acquisition related costs of \$303,146. These costs have been included in business acquisition expenses.

Recognised amounts of the identifiable net assets acquired.

	Fair value \$'000
Net property, plant and equipment	14
Cash	10
Customer list intangible asset	3,020
Software intangible asset	1,053
Trademark intangible asset	134
Trade debtors and other receivables	599
Deferred revenue	(1,501)
Deferred tax liability	(1,262)
Other liabilities	(40)
	<hr/>
Net identifiable assets acquired	2,027
Goodwill on acquisition	10,024
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>12,051</u>

The agreed consideration for the acquisition was a total cash amount of \$10,051,369, of which \$8,051,369 was paid on completion of the transaction and \$2,000,000 to be paid on the first year anniversary from completion. An additional \$2m performance payment will be made should financial stretch targets be achieved in the first 12 months from completion.

Goodwill has arisen from synergies expected to be achieved from the acquisition which include the integration of PeoplePulse and LiveSalary and the cross sell opportunities with the ELMO cloud based suite of products.

None of the goodwill is expected to be deducted for tax purposes.

The acquired business contributed gross revenues of \$364,263 and net loss of \$17,332 to the group from the period of 15 November 2017 to 31 December 2017.

Of the total business combination liability of \$4,087,492:

- \$4,000,000 is in relation to the acquisition of Quinttessential Marketing Consulting; and
- \$87,492 is the remaining liability owed to the previous owners of Techni Works Pty Limited.

Elmo Software Limited
Notes to the financial statements
For the half-year ended 31 December 2017

Note 7. Equity - issued capital

	Consolidated			
	31 December 2017 Shares	30 June 2017 Shares	31 December 2017 \$'000	30 June 2017 \$'000
Ordinary shares - fully paid	54,171,584	54,171,584	25,110	25,110
	<u>54,171,584</u>	<u>54,171,584</u>	<u>25,110</u>	<u>25,110</u>

Movements in ordinary share capital

Details	Note	Date	Shares	F class shares	Issue price	\$'000
Opening balance		1 July 2016	40	-	-	350
Shares subdivision	1	20 September 2016	910	-	-	-
F class issued				40	\$30,000	1,200
F class converted to ordinary shares			40	(40)	-	-
Balance pre-share split and IPO			<u>990</u>	<u>-</u>		<u>1,550</u>
Share split under IPO	2	5 June 2017	41,648,834	-	-	-
Issue of shares to the public on IPO		22 June 2017	12,500,000	-	\$2.00	25,000
Less: Capitalised IPO costs		22 June 2017	-	-	-	(1,485)
Issue of employees gift shares		22 June 2017	<u>22,750</u>	<u>-</u>	<u>\$2.00</u>	<u>45</u>
Balance		30 June 2017/ 31 December 2017	<u>54,171,584</u>			<u>25,110</u>

Note 1. The Company undertook a 23.75 for 1 share split of its ordinary shares

Note 2. The existing 990 shares at this time were split on a ratio of 42,069.53

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 8. Equity - accumulated losses

	Consolidated	
	31 December 2017 \$'000	30 June 2017 \$'000
Accumulated losses at the beginning of the half-financial year (31 December 2017: 1 July 2017; 30 June 2017: 1 January 2017)	(1,298)	(749)
Loss after income tax benefit for the half-financial year	<u>(571)</u>	<u>(549)</u>
Accumulated losses at the end of the half-financial year	<u>(1,869)</u>	<u>(1,298)</u>

Note 9. Equity - reserves

	Consolidated	
	31 December	30 June
	2017	2017
	\$'000	\$'000
Foreign exchange translation reserve	(30)	(47)
Share options reserve	74	-
	<u>44</u>	<u>(47)</u>

Note 10. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 11. Contingent liabilities

The Group had no contingent liabilities at 31 December 2017 and 30 June 2017, other than that disclosed in relation to the acquisition of Quinntessential Marketing Consulting as described in note 6.

Note 12. Key management personnel

Remuneration arrangements for key management personnel are detailed in the annual report as at 30 June 2017 with the proposed structure of the short-term incentive plan (STI Plan) and long-term incentive program (LTI Program) having been outlined in the Remuneration Report as at that date.

In addition for key management personnel during the half-year ended 31 December 2017, \$261,000 was accrued for the STI Plan.

Share options were granted under the LTI plan in October and December 2017 and vest in three tranches commencing August 2018. An expense has been recorded for the share options granted of \$40,320 in relation to key management personnel with a corresponding increase in the share-based payment reserve during the half-year ended 31 December 2017.

Note 13. Earnings per share

	Consolidated	
	31 December	31 December
	2017	2016
	\$'000	\$'000
Loss after income tax attributable to the owners	<u>(571)</u>	<u>(371)</u>
	Cents	Cents
Basic earnings (cents per share)	(1.05)	(0.91)
Diluted earnings (cents per share)	(1.05)	(0.91)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	54,171,584	40,898,900
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>54,171,584</u>	<u>40,898,900</u>

Elmo Software Limited
Notes to the financial statements
For the half-year ended 31 December 2017

The weighted average number of ordinary shares used in calculating the earnings per share for 31 December 2016 has been amended to reflect the share split.

Note 14. Events after the reporting period

On 1 February 2018, Elmo Software Limited completed the sale agreement to acquire the assets of Sky Payroll, a SaaS, cloud-based specialist payroll software solution for a maximum consideration of \$1,800,000.

On 26 February 2018 ELMO executed a binding unconditional share sale agreement to acquire 100% of the share capital of Pivot Software, Australia and New Zealand's leading cloud based, SaaS Remuneration software provider for a maximum consideration of \$11.21m.

Elmo Software Limited
Directors' declaration
For the half-year ended 31 December 2017

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Directors



Danny Lessem
Director



Trevor Lonstein
Director

27 February 2018
Sydney

Independent Auditor's Review Report to the Members of ELMO Software Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ELMO Software Limited, which comprises the condensed statement of financial position as at 31 December 2017, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 18.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of ELMO Software Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of ELMO Software Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Joshua Tanchel
Partner
Chartered Accountants
Sydney, 27 February 2018