

15 February 2022

ELMO Software Limited

(ASX:ELO)



First half FY22 conference call transcript

Danny Lessem, CEO and Co-Founder

Good morning and welcome to ELMO Software's half year results presentation.

I will be referring to the pack released to the ASX overnight.

ELMO has experienced record half year results, allowing us to upgrade guidance on the 1st of February. The key themes for today are:

- 1. We are experiencing high levels of organic growth through within both business segments and all geographies.*
- 2. Operating cash burn has improved significantly, and we are continuing to experience operating leverage as we scale.*
- 3. We remain well capitalised and are sufficiently funded to reach cashflow break-even which we expect to occur within the second half of FY23.*

Turning to page three, we achieved record first half results as we are continuing to experience increased demand as more organisations adopt cloud-based technology to manage remote workforces.

Annual recurring revenue, our key anchor metric, grew to \$98.3 million, representing annualised organic growth of 35% compared to 30 June 2021. Revenue rose to \$43.1 million for the half, up 41% pcp. EBITDA came in at \$0.3 million, up \$0.9 million pcp. Cash receipts for the half came in at \$56.0 million, up 63.0% pcp. ELMO remains well capitalised with \$58.4 million in cash on hand. Finally, we were able to upgrade our FY22 guidance on February 1 on the back of better than expected results.

Turning to page four, Company Overview. ELMO offers a convergent solution, providing medium and small businesses an all-in-one platform to manage people, process and pay. ELMO's competitive advantage is the width of our solution, addressing a wide variety of customer needs all in a single integrated platform. The business operates on a robust SaaS model based on recurrent subscription revenue. ELMO's offering has multiple modules or revenue streams, and we utilise a land and expand strategy to grow revenue from both new and existing customers. The ELMO Group has two brands; ELMO catering for the mid-market, and Breathe, catering for small businesses. The Group operates and has offices across Australia, New Zealand and the United Kingdom.

On to page five. Our expansion strategy is underpinned by three key pillars, which will continue to drive our growth into the second half and beyond. Firstly, segment expansion, secondly, module expansion, and finally, geographic expansion. Let me go into each pillar in more detail.

Turning to page six: segment expansion. With the acquisition of Breathe, ELMO now has two distinct market segments that we can address with two fit-for-purpose platforms. The growth

opportunities across each of these two segments are large. On the left side of the page is the historical ELMO mid-market business, focusing on organisations with 50 to 2,000 employees. ELMO currently has more than 3,000 mid-market customers with substantial upside as we further penetrate this market segment.

In the second quarter of FY21, we acquired Webexpenses, an expense management point solution. We have since been able to integrate the new module into the ELMO platform and have made it available to new and existing customers with a pleasing amount of uptake.

Webexpenses also has a significant operating footprint in the UK which we have been able to leverage to launch the ELMO business there. This has gone well, and we have already sold a number of ELMO modules in the United Kingdom.

On the right side of the page, there's the newer Breathe small business solution. Breathe's self-service platform caters for businesses who typically have fewer than 50 employees. This is a \$2.2 billion opportunity. Currently Breathe has more than 10,000 customers. They are experiencing rapid growth and have tremendous head room to grow their market share further. We have added a number of new modules to the Breathe platform in the UK which is already contributing to their incremental growth. In addition, we have launched the Breathe solution in the ANZ market and will be ramping up activities in the region throughout FY22.

Moving on to page seven. The second pillar of our growth strategy is module expansion. ELMO operates on a land and expand model. The width of our integrated solution gives us a competitive advantage in attracting new customers. It also enables us to cross-sell our additional modules to our existing customer base. Recently, we have brought two new modules to market including COVIDsecure and Experiences. These two new modules respond to the changing nature of the workplace environment assisting our customers to navigate the new way of working.

Turning to page eight, the last pillar of our growth strategy is geographic expansion. There are significant revenue opportunities in the United Kingdom and our acquisitions there are performing well. Breathe continues to grow at a rapid rate which James will unpack shortly and Webexpenses has provided a solid foundation to scale the ELMO business throughout the region.

Turning to page nine. As a result of our expansion into new market segments, module adjacencies and geographies, our total addressable market has expanded considerably to \$12.8 billion. With less than 3% penetration in the small business segment and less than 5% penetration in the mid-market, this provides tremendous headroom for us to continue our high growth into the future.

Now I'll hand over to James to take you through our financial results in more detail.

James Haslam, Chief Financial Officer

Thank you, Danny, and good morning everyone. I will now run you through the half year financial results in more detail starting with a look at the trading performance and then cash flow.

Before we move through the slides and to re-cap, there are three key aspects to these results:

- 1. Firstly, the high level of organic growth in the business through both segments,*
- 2. Secondly, operating leverage is continuing to come through as we continue to scale resulting in a significant improvement in the rate of cash burn; and*
- 3. Thirdly, we remain well capitalised and funded to break even.*

Turning to page 11, I will take you through the trajectory of ARR. As outlined by Danny earlier, ELMO has recorded an annualised 35% increase in annual recurring revenue when compared to 30 June 2021, closing the period at \$98.3 million. Since 31 December 2017, ELMO has delivered high ARR growth of 48% per annum, of which 36% has been organically driven.

This growth has us well placed for achieving our guidance, which I will come back to later.

Turning to page 12, the group ARR growth. Here I break down the ARR growth through the half in more detail.

The group secured total new business of \$18.6 million in the first six months alone which when combined with a reduction in the churn rate has driven the annualised organic growth of 35%. This growth further demonstrates the return of ELMO's pre-COVID growth rates.

The organic growth was achieved in both our segments with the mid-market growing at 34% and the small business segment again contributing very high growth of over 40%.

Over the page I look into the mid-market dashboard. The ELMO mid-market ARR grew 34% through H1 FY22 to \$87.4 million. In addition to the strong top line growth we have continued to see operating leverage coming through across key cost categories resulting in the generation of \$1.0 million of positive EBITDA. When compared to the same period in the prior year this reflects a \$1.6 million improvement.

Through the half we saw an increase in the upsell to existing customers and this coupled with a reduction in the churn rate has resulted in a net dollar retention of 103%. For reference this was 95.7% at 30 June 2021. The upsell combined with the new business sales has also contributed to drive the increase in the average module per customer account from 2.3 to 2.6 across the last 6 months.

Now a look at the small business dashboard on page 14. We have seen continued high growth in the small business segment with annualised organic ARR growth of 41% closing at \$10.9 million. This was driven through customer adds coupled with the cross sell of new modules which have been introduced in the last twelve months.

A fantastic milestone was passed in the period with Breathe now servicing more than 10,000 customers.

One final comment on Breathe, Breathe has continued to generate high gross profit margins at over 89%.

Turning the page I take a more detailed look into the group financials.

At a Group level, the high revenue growth of 41% coupled with the increased operating leverage across sales & marketing, research & development and general & administration has translated to the generation of \$0.3 million of positive EBITDA. This reflects a \$0.9 million improvement from the prior half year.

This increasing operating leverage is driving a significant reduction in cash burn.

Over the page we illustrate where the operating leverage is coming from.

We have outlined a comparison of the spend ratios from the first half of FY20, FY21 and FY22. These charts show there has been a noticeable reduction in each category with the most significant leverage being generated through general and administration costs. This is reflective of our ability to leverage the operating infrastructure both ANZ and the UK.

I'll now take you through the lifetime value of the customer base on page 17. Both the mid-market and small business segments have seen a significant increase in the lifetime value of the customer base which we now estimate to be worth a combined \$789 million at 31 December 2021.

In addition, and of equal importance, is the ratio of the lifetime value to the cost of acquiring a customer has also improved significantly in both segments to 7.9 times in the mid-market and 10.1 times in the small business segment.

This increase has been driven by two key factors:

1. *The increase in the number of customers won; and*
2. *The reduction in the churn rate*

Turning our attention to the cash flows on pages 18 and 19. Through the last 6 months ELMO has collected a record \$56 million. This is a 63% increase on the same period last year.

Across the last 12 months total collections have exceeded \$100 million.

Page 19 highlights ELMO is well capitalised with over \$58 million of cash reserves which we expect can fund the group through to cash flow break even.

Evidence of this can be seen in the rate of cash burn, which has reducing by 36% when compared to the first half of FY21, this is a direct result of the operating leverage we are seeing coming through the business.

Finally, I am pleased to report we are well on track to achieve our full year FY22 guidance – which was upgraded on 1 February 2022.

As a reminder we upgraded the ARR guidance by \$2 million and both revenue and EBITDA by \$0.5 million.

The guidance ranges now sit at:

- ARR **\$107.0** to **\$113.0** million
- Revenue **\$91.0** to **\$96.0** million; and
- EBITDA of **\$1.5** to **\$6.5** million

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About ELMO

Established in 2002, ELMO Software offers cloud-based solutions for small businesses and mid-market organisations to manage people, process and pay. Spanning across Australia, New Zealand and the United Kingdom, ELMO operates on a software-as-a-service ("SaaS") business model, based on recurrent subscription revenues.