1 August 2022

ELMO Software Limited

(ASX:ELO)

ELMO FY22 business update transcript

James Haslam, CFO: Thank you and good afternoon everybody and welcome to ELMO's full year results preview presentation. I am James Haslam the CFO of the ELMO Group and I will be taking you through the presentation released to the ASX this morning[1].

With me today is CEO Danny Lessem who unfortunately has laryngitis and will not be able to present.

Danny Lessem, CEO: Thanks for stepping in James.

James Haslam, CFO: Thanks Danny.

ELMO has reported a record result across the key financial measures of annual recurring revenue, revenue, underlying EBITDA and cash receipts for FY22.

The key themes for today are:

1. The continued strong organic growth through both business segments and geographies.

2. Operating cash burn has improved significantly compared to FY21, as we continue to experience operating leverage as we scale.

3. We remain well capitalised and are sufficiently funded to reach cashflow breakeven which we expect to deliver in FY23.

4. We are also providing our FY23 guidance.

Turning to page number two, we recorded a record result in FY22 as we are continuing to experience strong demand as more organisations adopt cloud-based technology to manage their hybrid and remote based workforces.

Annualised recurring revenue (ARR) grew to $108.2 million, representing organic growth of 29% when compared to 30 June 2021. Revenue also rose to $91.4 million, up 32% pcp.

Underlying EBITDA came in at positive $7.1 million, up $6.5 million pcp. This growth highlights the benefits of our scale and that we are beginning to leverage the significant investments in both the products and people over the last few years.

Cash receipts came in at a very strong $116.9 million, up 46% pcp and ELMO remains well capitalised with $47.9 million cash on hand, which leaves us well positioned to achieve operating cash flow breakeven in FY23.

[1] Refer to business update presentation released to the ASX on 28 July 2022

Turning to page 3, the trajectory of our ARR. Since 30 June 2018 ELMO has delivered high ARR growth of 37% per annum, of which 36% has been organically driven. Revenue has also increased at the same rate.

Turning over to page 4, this shows the Group ARR growth through the year. The group secured net new business of $24.4m across the last 12 months, which is a new record. The 29% growth, which is all organic, further highlights the strong appetite in the market for both small and mid-sized businesses to adopt HCM technology.

The growth was achieved in both our mid-market and small business segments with the mid-market growing at 29% and the small business segment again contributing high growth of 34%.

It is worth noting some dynamics which had an impact on the closing ARR and revenue balance particularly through the second half of the year.

Firstly, our contract structure, we saw a number of larger contracts include a more significant upfront component relating to the professional fees. These typically are collected in full upfront but then need to be amortised across the life of the contract and we can see this coming through in the positive impact on cash receipts which came in just under $117m. This structure has the effect of deferring the revenue to subsequent years.

Secondly, the timing of new deals, which is very much skewed towards the back end of the month throughout the year and as we recognise revenue on a day's basis, not a full month, that has a similar impact of deferring revenue.

Thirdly, foreign exchange rates, the movement between the Australian Dollar, the British Pound and the New Zealand dollar, had an impact on reducing both the reported ARR and revenue when translating the UK and NZ businesses from their base currency. Currently the operations in these markets account for around 30% of our ARR and revenue.

Moving to page 5 to 7, we'll look at the cash flows of the business. Through the last 12 months ELMO has collected a record $116.9 million, a 46% increase on the same period last year.

On a quarterly basis you can see the strong profile across the year, which includes a quarterly record of $32.6 million collected in Q4, this is setting us up well heading into FY23.

Page 6 highlights ELMO is well capitalised with just under $48 million of cash reserves which we expect will fund the group through to cash flow break even.

Notably, the cash burn has decreased significantly by 34% from a negative $26.4m in FY21 to a negative $17.4m in FY22. This reduction reflects the move to generating operating leverage as a result of scale and from restructuring initiatives which we have launched during the year.

On to page 7, we further illustrate the trajectory towards operating cash flow break even, starting with the acceleration of positive EBITDA, followed by the reduction in operating cash burn. Once operating cash flow break even has been achieved, I expect that free cash flow breakeven will shortly follow.

Turning across to page 8, I will run through some initiatives which are expected to support the move to the breakeven point in FY23.

Firstly, the strong top line growth is expected to continue and I will come to guidance shortly.

To complement the strong growth there has also been a number of initiatives kicked off during FY22 to support the acceleration of achieving operating cash flow breakeven.

Firstly, we have adopted regional leadership teams to expedite and streamline decision making and this includes the promotion of two UK senior leaders to the ELMO Group executive team.

Moving through the P&L items, in the client services team the delivery model has been evolved to now incorporate outsource and offshore support to help lower the cost of and expedite customer onboarding.

In sales and marketing, we have revisited the go to market approach and this has been simplified to focus on the more mature and complementary modules.

Through R&D the investment across the last few years has been materially completed with the focus now moving to more maintenance, coupled with the utilisation of lower cost offshore support through our Hero Teams joint venture and that is primarily the focus on Southeast Asia where we see great cost arbitrage.

On the G&A side the group has reduced office space requirements as we have also adopted hybrid working practices with our teams and we expect some savings from this to come through FY23 as we look to reduce our footprint.

Finally, from a capital management standpoint, we are currently reviewing the current level of debt held on the balance sheet. Given cash flow breakeven is not far away, it is unlikely we require this level of drawn debt for the foreseeable future and a reduction in this benefit will future and ongoing funding costs.

Finally, I am pleased to provide guidance for FY23.

At a group level ARR is expected to grow organically by between 24% to 29% across the next 12 months to between $134 and $140 million. The pipeline in both the ANZ and the UK markets is very strong and supports this growth. This would be done through a combination of winning new customers as well as upselling to our existing customer base.

We expect this ARR growth will translate to revenue growth of between 25-31% up to $114m to $120m.

As a result of this growth and a stabilising of the cost base, we expect EBITDA to continue to accelerate as we leverage this cost base and expect this to fall in the range of between $20 to $25m positive.

A new level of guidance we are also providing today for the first time is around operational cash flow. We expect to breakeven across the year and today provide the guidance range of negative $2m to positive $2m operating cash flow. To be clear operating cash flow includes all capitalised costs. The only costs that are not included in here relate to our financing costs.

Thank you for your time, I will now hand back to the operator for Q&A.

-ENDS-

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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, pay and expenses. 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.

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