ELMO Software Limited

ABN 13 102 455 087

Preliminary Final Report

For the financial year ended

30 June 2022

Contents

ASX Appendix 4E

Preliminary final report

ELMO Software Limited

ABN 13 102 455 087
Year ended 30 June 2022 (FY22)
(Previous corresponding period: Year ended 30 June 2021 (FY21))

ASX Appendix 4E

Results for announcement to the market

	30 June 2022 $'000	30 June 2021 $'000	%
Revenues from ordinary activities	91,385	69,106	32.2%
Net loss after tax attributable to equity owners	(78,953)	(37,626)	109.8%

Dividends

No dividend was paid or proposed during the year ended 30 June 2022 (2021: $nil).

Other information

	30 June 2022 cents	30 June 2021 cents
Net tangible liabilities per ordinary security	(74.76)	(11.62)
Loss per share	(87.84)	(42.89)

The net tangible asset per ordinary security is calculated based on 90,192,991 ordinary shares on issue at 30 June 2022 and 89,223,315 shares that were in existence at 30 June 2021. Net tangible assets includes the right-of-use assets, lease liabilities and contract assets in the above calculation.

There were no entities where control was either gained or lost during the year ended 30 June 2022.

Explanation of results

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. The Preliminary Final Report is unaudited and contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2022. The Annual Financial Report is being audited and is expected to be made available on or around 30 September 2022.

Review of operations

Principal activities

ELMO Software Limited ('ELMO' or 'Group') is a leading provider of Software-as-a-Service (SaaS), cloud-based Human Resources (HR), payroll and expense management solutions in Australia, New Zealand and the United Kingdom (UK) employing over 570 employees.

The Group develops, sells and implements a range of modular software applications to efficiently manage HR, payroll and expense management related processes. ELMO's solutions assist organisations to better address and adapt to the complexities of the Human Capital Management (HCM) industry while increasing their productivity and reducing costs.

The ELMO Group primarily operates in two segments, mid-market through the ELMO platform, and small business through the Breathe platform.

In the mid-market, ELMO's HR, payroll and expense management software solutions enable organisations to manage the lifecycle of an employee from hire to retire on a single integrated platform.

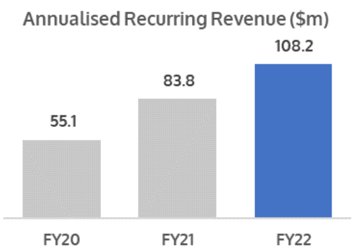
During FY22 the ELMO Group launched core HCM modules into the UK mid-market, leveraging the operating footprint acquired as part of the Webexpenses acquisition in December 2020. Initial sales have been achieved through the second half of FY22.

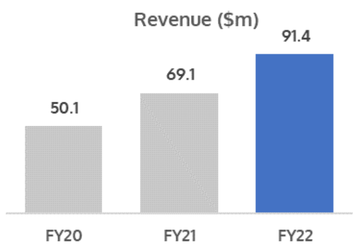
Small business operations have continued to grow strongly in the UK region with over 11,000 active customers by 30 June 2022. The ANZ small business platform represents a significant growth opportunity and with infrastructure in place the Group expects to begin to increase the revenue contribution through FY23.

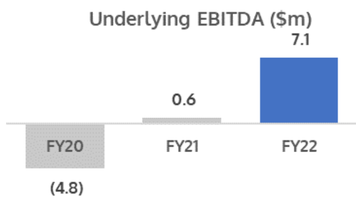
The ELMO Group is well capitalised and positioned for continued sustainable organic growth. This growth can be achieved through leveraging the investment made across the last three years in both the people and product. Through leveraging the existing cost infrastructure, the Group is expected to achieve operating cash flow break even through FY23.

Financial and operational performance for the year

Highlights







The ELMO Group has experienced significant growth across the key metrics of Annualised Recurring Revenue (ARR), revenue and underlying EBITDA through FY22 when compared to FY21.

Annualised Recurring Revenue (ARR) and Revenue

The Group achieved a record ARR of $108.2 million, an increase of 29% compared to the prior year (FY21: $83.8 million). The growth in ARR was driven by small and medium sized businesses continuing to adopt hybrid and remote based working practices. This shift in businesses operating models is driving an increase in rate of digitisation of HR systems and the adoption of cloud-based HR technology to help with the management of the workforce. This shift is contributing to the organic growth driven across both the mid-market (ELMO) and small business (Breathe) operations.

Mid-market growth rates continue to increase with ARR growth of 29% achieved through the year to 30 June 2022. Key drivers to the growth included securing new customers, the upsell of additional modules to existing customers, price increases and a reduction in the rate of lost customers.

The small business segment has continued to experience a high growth rate of 34% for the year. The majority of growth was driven through winning over 3,200 new customers and this was complimented through the cross sell of additional modules which have been introduced since the acquisition in October 2020, price increases and a reduction in the rate of lost customers.

Underlying EBITDA

ELMO achieved an underlying EBITDA of $7.1 million, an improvement of $6.5 million compared to the prior year (FY21: $0.6 million). The growth in underlying EBITDA was driven by the revenue growth, coupled with increased operating cost leverage across sales & marketing, research & development (R&D) and general & administrative expenses.

Net loss

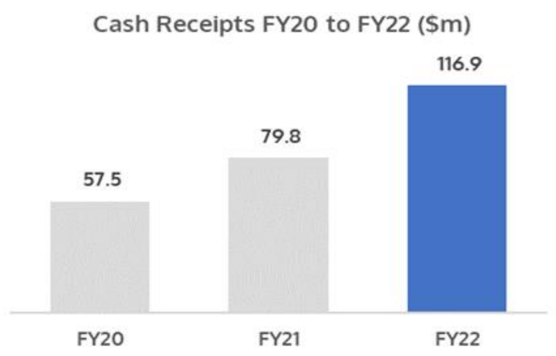
The net loss before significant items was $37.2 million, compared with a loss of $28.1 million in the prior year. The increase in the loss was driven by the factors outlined above coupled with the additional amortisation expense relating to the capitalised costs from prior years.

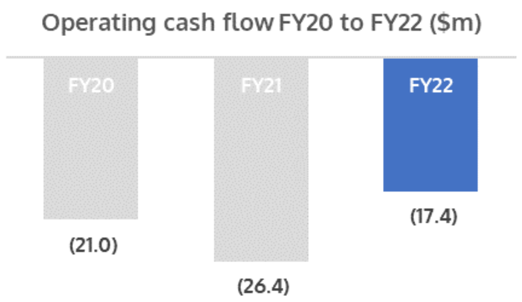
The total net loss for the period, including the items above was $79.0 million (FY21: $37.6 million) which included the increase in fair value for equity based earn out payments of $26.3 million and non-cash share-based payments of $11.2 million.

Capital management and cash flow

ELMO is well capitalised to fund future growth and the achievement of cash flow breakeven. As at 30 June 2022 the Group held cash and term deposits of $47.9 million, which included a drawn debt facility of $40.5 million.

During FY22 ELMO enhanced its capital structure through securing an additional debt facility of $11.0 million with the Commonwealth Bank of Australia and converting the cash component of contingent consideration from a cash-based payment to equity settled.





The total cash receipts from customers through FY22 totalled $116.9 million reflecting a 46% increase compared to the prior year (FY21: $79.8 million). The cash burn, reflecting the receipts less the underlying operating cash payments, reduced by 34% from $26.4 in FY21 to $17.4m in FY22.

Consolidated results summary

A$ million	FY22	FY21
Revenue	91.4	69.1
Gross profit[1]	82.2	61.4
Gross profit %	*90.0%*	*88.9%*
Underlying EBITDA[2]	**7.1**	**0.6**
Depreciation and amortisation[3]	(40.3)	(29.0)
Net finance cost[4]	(5.3)	(0.3)
Taxation	1.3	0.6
Net loss before significant items	**(37.2)**	**(28.1)**
Significant items[5]	(41.8)	(9.5)
Net loss after tax attributable to equity owners	**(79.0)**	**(37.6)**
Cents per share		
Loss per share pre significant items	*(41.40)*	*(31.95)*
Loss per share	*(87.84)*	*(42.89)*

1. *Gross profit shown above excludes non-cash share-based payments of $0.7 million and amortisation of $7.9 million which are included within cost of sales in the statutory cost of sales on page 6.*
2. *Underlying EBITDA is a key measure of the underlying performance of the Group.*
3. *Depreciation and amortisation includes amortisation of contract assets within cost of sales.*
4. *Net finance cost includes foreign exchange losses ($2.7 million), interest relating to leases ($1.3 million) and interest on the CBA debt facility ($0.7 million) and other unrealised/realised losses ($0.6 million).*
5. *Significant items relate to changes in fair value of contingent consideration of $26.3 million (FY21: $3.9), share-based payment expense of $11.2 million (FY21: $5.2 million), restructuring costs of $1.7 million (FY21: $nil), right-of-use asset impairment of $0.6 million (FY21: $nil) and other net one-off costs of $2.0 million (FY21: $0.4 million)*

Basis of preparation

This report includes Annualised Recurring Revenue and underlying EBITDA, measures used by the Directors and management in assessing the on-going performance of the ELMO Group. Annualised Recurring Revenue and underlying EBITDA are non-IFRS measures and have not been audited or reviewed in accordance with Australian Accounting Standards.

Annualised Recurring Revenue is calculated at a point in time and, in this report, reflects the annualisation of revenue at 30 June 2022 and 30 June 2021.

Underlying EBITDA is calculated as profit/(loss) before interest, taxes, depreciation of plant and equipment, amortisation of intangibles, changes in the fair value of contingent consideration, share based payments and significant non-recurring transactions. Underlying EBITDA, which is reconciled in the above table is a measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's performance excluding non-cash items and non-recurring significant transactions.

Consolidated Statement of Profit or Loss and Other Comprehensive Income or Loss
For the year ended 30 June 2022
Preliminary final report

	Note	Consolidated 2022 $'000	2021 $'000
Revenue from contracts with customers	4	91,385	69,106
Cost of sales		(17,828)	(11,693)
Gross profit		73,557	57,413
Other income		23	1,826
Sales and marketing expenses		(40,139)	(30,921)
Research and development expenses		(23,679)	(12,271)
General and administrative expenses		(24,553)	(22,674)
Depreciation and amortisation expense		(32,418)	(25,140)
Impairment loss on trade receivables		(620)	(2,010)
Impairment on right-of-use asset		(625)	-
Net gain on derecognition of right-of-use asset measured at cost	8	-	134
Changes to fair value of contingent consideration	11	(26,319)	(3,866)
Finance income		51	452
Finance costs		(5,339)	(744)
Share of loss from joint venture		(234)	(461)
Loss before income tax benefit		(80,295)	(38,262)
Income tax benefit	5	1,342	636
Loss after income tax benefit for the year attributable to the owners of ELMO Software Limited		(78,953)	(37,626)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		44	767
Total comprehensive loss for the year attributable to the owners of ELMO Software Limited		(78,909)	(36,859)
Loss per share		**Cents**	**Cents**
From continuing operations			
Basic earnings	6	(87.84)	(42.89)
Diluted earnings	6	(87.84)	(42.89)

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

Consolidated Statement of Financial Position
As at 30 June 2022
Preliminary final report

	Note	Consolidated 30 June 2022 $'000	Consolidated 30 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		27,605	66,944
Term deposit		20,250	15,000
Trade and other receivables		18,934	13,724
Derivative financial instruments	*11*	-	400
Contract assets	*4*	10,737	6,192
Other current assets		2,479	3,567
Finance lease receivable	*8*	-	82
Total current assets		80,005	105,909
Non-current assets			
Investment in jointly controlled entity		803	1,037
Property, plant and equipment		7,778	8,422
Intangible assets	*7*	167,166	177,217
Contract assets	*4*	7,863	5,186
Right-of-use assets	*8*	21,665	18,774
Total non-current assets		205,275	210,636
Total assets		285,280	316,545
Liabilities			
Current liabilities			
Trade and other payables		14,451	14,644
Deferred and contingent consideration	*11*	39,478	35,234
Lease liabilities	*8*	5,825	4,041
Employee benefits		4,812	4,494
Current tax liabilities		126	441
Contract liabilities	*4*	47,366	32,545
Total current liabilities		112,058	91,399
Non-current liabilities			
Loans and borrowings	*9*	40,500	30,000
Deferred and contingent consideration	*11*	313	313
Lease liabilities	*8*	22,540	20,155
Employee benefits		1,126	799
Deferred tax		3,990	5,002
Contract liabilities	*4*	5,013	2,031
Total non-current liabilities		73,482	58,300
Total liabilities		185,540	149,699
Net assets		99,740	166,846
Equity			
Share capital	*12*	239,317	235,695
Reserves	*12*	13,790	5,565
Accumulated losses		(153,367)	(74,414)
Total equity		99,740	166,846

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2022
Preliminary final report

	Issued capital $'000	Foreign currency reserves $'000	Share-based payment reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	214,156	99	1,781	(36,788)	179,248
Loss after income tax benefit for the year	-	-	-	(37,626)	(37,626)
Other comprehensive loss for the year	-	767	-	-	767
Total comprehensive loss for the year	-	767	-	(37,626)	(36,859)
Transactions with owners in their capacity as owners					
Shares issued under business combinations	21,223	-	-	-	21,223
Vesting of performance rights and options	316	-	(254)	-	62
Reserves					
Equity-settled share-based payment	-	-	5,172	-	5,172
Shares purchased by trust	-	-	(2,000)	-	(2,000)
Balance at 30 June 2021	235,695	866	4,699	(74,414)	166,846
Balance at 1 July 2021	235,695	866	4,699	(74,414)	166,846
Loss after income tax benefit for the year	-	-	-	(78,953)	(78,953)
Other comprehensive loss for the year		44			44
Total comprehensive loss for the half-year	-	44	-	(78,953)	(78,909)
Transactions with owners in their capacity as owners					
Vesting of performance rights and exercise of options	3,622	-	(3,026)	-	596
Reserves					
Equity-settled share-based payment	-	-	11,207	-	11,207
Balance at 30 June 2022	239,317	910	12,880	(153,367)	99,740

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

Consolidated Cash Flow Statement
For the year ended 30 June 2022
Preliminary final report

	Note	Consolidated 30 June 2022	30 June 2021
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		116,878	79,819
Payments to suppliers and employees (inclusive of GST)		(111,675)	(77,673)
Other income received		74	3,898
Income taxes refunded		139	59
Net cash from operating activities		5,416	6,103
Cash flows from investing activities			
Interest received		56	467
Payment of deferred consideration from acquisitions in the prior period	*11*	(21,273)	(5,839)
Payment for acquisition of businesses, net of cash acquired		-	(46,216)
Payments for property, plant and equipment		(2,931)	(5,875)
Payments for intangibles		(18,454)	(30,554)
Net cash used in investing activities		(42,602)	(88,017)
Cash flows from financing activities			
Proceeds from exercise of share options		419	60
Share issue transaction costs		(97)	(328)
Proceeds from borrowings		10,500	30,000
Transfer to term deposit		(5,250)	(15,000)
Loans and borrowings transaction costs		(886)	-
Shares purchased by trust		-	(2,000)
Receipt for lease incentives		37	1,338
Repayment of lease liabilities		(6,648)	(5,116)
Net cash generated used in financing activities		(1,925)	8,954
Net decrease in cash and cash equivalents		(39,111)	(72,960)
Cash and cash equivalents at the beginning of the year		66,944	139,887
Effect of exchange differences on cash balances		(228)	17
Cash and cash equivalents at the end of the year		27,605	66,944
Term deposits		20,250	15,000
Cash and term deposits		47,855	81,944

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

Note 1. Statement of significant accounting policies

Statement of Compliance

The Preliminary Final Report (the Report) has been prepared in accordance with the ASX Listing Rule 4.3A and has been derived from the unaudited consolidated financial statements. The consolidated financial statements have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period and the Corporations Act 2001. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS') and interpretations ('IFRICs') adopted by the International Accounting Standards Board ('IASB').

The preliminary final report has been prepared on the historical cost basis except for derivative financial assets, contingent consideration liabilities and share-based payment transactions which are stated at their fair value.

The consolidated financial statements are in the process of being audited and are expected to be made available on or around 30 September. Accordingly, this report should also be read in conjunction with any public announcements made by the Company during the year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

The Group 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, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Standards issued but not yet effective
From the new standards effective for annual periods beginning on or after 1 July 2021 and the standards and interpretations issued but not yet effective, the Group has assessed that there will be no significant impact on the financial statements.

For FY22 contract assets of $18.6 million have been recognised and presented in accordance with AASB 15, *Revenue from customer* contracts, in relation to implementation costs and sales commissions which were previously presented as intangible assets. Consequently the presentation for the prior year period has been restated by $11.4 million in order for presentation to be consistent. With the exception of the above restatement, accounting policies adopted are consistent with those of the previous financial year.

Going concern
The Consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due. As at 30 June 2022 the Group has a cash and term deposit balance of $47.9 million with net current liabilities of $32.1 million but this includes non-cash elements of contract liabilities for deferred subscription revenue of $47.4 million and contingent consideration to be settled in shares of $38.7 million.

Note 1. Statement of significant accounting policies (continued)

Statement of Compliance (continued)

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Changes in these judgements, estimates and assumptions could result in outcomes that require a material adjustment in future periods.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ELMO Software Limited ('Group', 'Company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. ELMO Software Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries
Subsidiaries are all those entities over which the parent entity has control. The parent entity controls an entity when the parent entity is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the parent entity. They are de-consolidated from the date that control ceases.

Transactions eliminated upon consolidation
Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the Consolidated
statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

Note 1. Statement of significant accounting policies (continued)

Statement of Compliance (continued)

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Revenue recognition
Judgement is required as to whether revenue is recognised over time or at a point in time, whether POs are distinct, when POs are satisfied, determining life of customers and determining the amount to be recognised for contract assets (see note 4).

Business combinations
Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported. There is significant judgement involved including determining the fair value of consideration and critically valuing the intangible assets for each business combination. Several factors are taken into consideration in valuing intangibles including replacement cost for software and revenue growth assumptions and discount rates underlying the valuation of customer lists and software (see note 7).

Contingent consideration
There is uncertainty around the actual payments that will be made in relation to contingent consideration for acquisitions that will be subject to the performance of the acquired entity subsequent to the reporting date for which a fair value assessment is made at the reporting date based on information available (see note 11).

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Impairment of goodwill
The consolidated entity assesses impairment of goodwill and other indefinite life intangible assets annually by performing a value in use calculation, which incorporate a number of key estimates and assumptions. In determining the ELMO CGU's fair value significant judgement is used in considering the appropriate comparable companies, and consequently the appropriate revenue multiple to determine ELMO's fair value.

Capitalisation of software development costs
Determining the rate of capitalisation of software development costs is a critical judgement and estimate assessing the appropriate stage at which the development of a project is deemed to be technically feasible and capable of producing a revenue-generating asset.

Credit risk
During the current challenging economic environment, credit risk is assessed to be a critical accounting judgement regarding estimations and assumptions over the expected credit loss allowance.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 3. Operating segments

Accounting policy

Operating segments, are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive management team.

For FY22 the Group operated in two distinct segments being:

- Small business solution providing a self-service HR platform;
- Mid-market solution providing a range of modular software applications to efficiently manage HR and pay.

These segments are managed and reported separately because the operating markets in which the product is sold are fundamentally different.

FY22	**Small business solution $'000**	**Mid-market solution $'000**	**Total $'000**
Segment revenue	10,912	80,473	91,385
Share of loss from joint venture	-	234	234
Net finance cost			(5,288)
Depreciation and amortisation *(i)*			(40,301)
Share-based payments			(11,158)
Fair value adjustment to contingent consideration			(26,319)
Loss before tax			(80,295)
Segment assets	45,295	239,985	285,280
Segment liabilities	(5,313)	(180,227)	(185,540)

(i) Depreciation and amortisation includes amortisation of contract assets recognised in cost of sales of $7.9 million.

Major customers

During the years ended 30 June 2022 and 30 June 2021 no single customer contributed 10% or more to the Group's external revenue.

3. Operating segments (continued)

FY21	Small business solution $'000	Mid-market solution $'000	Total $'000
Segment revenue	5,498	63,608	69,106
Share of loss from joint venture	-	(461)	(461)
Net finance income			292
Depreciation and amortisation			(27,409)
Share-based payments			(5,172)
Fair value adjustment to contingent consideration			(3,866)
Significant one-off items			(1,928)
Loss before tax			(38,262)
Segment assets	45,972	270,573	316,545
Segment liabilities	(7,249)	(142,450)	(149,699)

Geographical information	Revenue from external customers		Geographical non-current assets	
	30 June 2022 $'000	30 June 2021 $'000	30 June 2022 $'000	30 Jun 2021 $'000
Australia	63,308	52,963	94,826	91,114
New Zealand	6,622	5,465	11,897	12,906
United Kingdom	21,131	10,526	97,443	105,250
Others	324	152	306	329
	91,385	69,106	204,472	209,599

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; specifically for the current year excludes the investment in jointly controlled entity of $803,000 (2021: investment in jointly controlled entity and finance lease receivable of $1,119,000). Segment assets and liabilities are not regularly reported to the CODM.

Note 4. Revenue from contracts with customers

Accounting policy

The Group applies the following five steps in recognising revenue from contracts with customers:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to performance obligations based on their relative standalone selling price; and
5. Recognise revenue when, or as, performance obligations are satisfied

The group has two primary revenue streams:

- Software solution services; and
- Professional services

(i) Identification of distinct elements and separate performance obligations

Software solution services

In the case where the customer contract includes a license and additional integration services provided including implementation and integration ("software solution services") the assessment has been performed as to whether a separate performance obligation exists for each element. These additional services provided with the licence are not distinct or separately identifiable and therefore the contract includes only one performance obligation under AASB 15.

Professional services

These services have been identified as being distinct from others in the contract as they are not dependent on or interrelated with other obligations in the contract and are therefore classified as a separate performance obligation.

(ii) Revenue recognition

The Group recognises revenue from the following major sources as below:

Revenue Stream	Performance Obligation	Timing of Recognition
"Software solution services" - software licences, implementation and integration services	Access to software	Over the life of the contract as the customer simultaneously receives and consumes the benefits of accessing the software
Professional services – one-off services including but not limited to training workshops and onsite consultations	As defined in the contract but typically at completion of the service	Recognised as services provided.

(iii) Contract balances

The timing of revenue recognition, customer invoicing and cash collections results in trade receivables and deferred revenue (contract liabilities) recognised on the Group's Consolidated statement of financial position. Contract assets are recognised for implementation costs and sales commissions incurred to fulfil customer contracts and amortised over the life of the contract.

Note 4. Revenue from contracts with customers (continued)

Revenue	**Small business solution**		**Mid-market solution**		**Total**	
	2022 $'000	**2021 $'000**	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**
Revenue recognised at a point in time	-	-	2,007	2,280	2,007	2,280
Revenue recognised over time	10,912	5,498	78,466	61,328	89,378	66,826
Total revenue	10,912	5,498	80,473	63,608	91,385	69,106

Contract balances	***Current***		***Non-current***		**Total**	
	2022 $'000	**2021 $'000**	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**
Contract assets	10,737	6,192	7,863	5,186	18,600	11,378
Contract liabilities	(47,366)	(32,545)	(5,013)	(2,031)	(52,379)	(34,576)

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

Consolidated	Implementation costs $'000	Sales commission $'000	Total $'000
Balance at 1 July 2020	-	3,542	3,542
Additions	6,404	5,279	11,683
Amortisation expense	(1,580)	(2,267)	(3,847)
Balance at 30 June 2021	4,824	6,554	11,378
Additions	7,444	7,668	15,112
Amortisation expense	(3,721)	(4,162)	(7,883)
Foreign exchange movement	2	(9)	(7)
Balance at 30 June 2022	8,549	10,051	18,600

Note 5. Income tax benefit

Accounting policy

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Tax consolidation
Elmo Software Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group where it is probable that taxable income will be generated.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable for the previous years. The amount of current tax payable or receivable is the best estimate of the tax expected to be paid or received. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences, unused tax credits and unused tax losses to the extent it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 5. Income tax benefit (continued)

	Consolidated 2022 $'000	Consolidated 2021 $'000
Income tax expense		
Current tax expense	48	(342)
Deferred tax – origination and reversal of temporary differences	861	978
Adjustment recognised for prior periods – current tax	(1,363)	-
Adjustment recognised for prior periods – deferred tax	1,884	-
De-recognition of unders/overs	(88)	
Aggregate income tax benefit	1,342	636
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax expense	(80,295)	(38,262)
Tax at the statutory tax rate of 30%	24,089	11,479
Tax effect amounts which are not deductible in calculating taxable income:		
Tax rate difference in overseas tax jurisdictions	(3,481)	(1,930)
Effect of expenses that are not deductible in determining taxable profit	(3,128)	(873)
Non-deductible R&D costs (R&D tax offset not booked)	(273)	(328)
Tax losses not recognised	(12,439)	(8,034)
Adjustment for prior income year	393	-
Deferred tax not recognised	(3,819)	332
Other	-	(10)
Income tax benefit	1,342	636

Note 6. Loss per share

Accounting policy

Basic loss per share
Basic loss per share is calculated by dividing the loss attributable to the owners of Elmo Software Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted loss per share
Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.
In the case that the Group is in a loss position for the period no effect will be applied in relation to dilutive factors.

Note 6. Loss per share (continued)

	Consolidated	
	2022 $'000	2021 $'000
Loss after income tax	(78,953)	(37,626)
	Cents	Cents
Basic loss per share	(87.84)	(42.89)
Diluted loss per share	(87.84)	(42.89)

The calculation of EPS has been based on the loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

There are no adjustments in relation to the effects of all dilutive potential ordinary shares due to the current loss-making position of the Group for the current year.

	2022 $'000	2021 $'000
Weighted average number of ordinary shares used in calculating loss per share	89,883,491	87,730,404

Note 7. Intangibles assets

Accounting policy
(i) Recognition and measurement
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.

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.

Note 7. Intangibles assets (continued)

Accounting policy (continued)
Customer lists
Upon acquisition of a new business, customer lists which are acquired including active revenue contracts are amortised over management's best estimate of their useful life.

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 is not amortised until its useful life is determined to be finite. It will be tested for impairment annually and whenever there is an indication that it may be impaired.

(ii) Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits of the specific asset to which it relates. All other expenditure including any expenditure for internally generated goodwill or brands is recognised in the profit or loss as incurred.

(iii) Amortisation
Amortisation is calculated to write off the cost of the intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill and trademarks are not amortised and are tested for impairment.
The estimated useful lives for current and comparative periods are as follows:

Software development costs	3-5 years
Customer lists	7-10 years

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.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or a group of CGUs that are expected to benefit from the synergies of the consolidation.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of the asset of CGU is the higher of the assets fair value less costs to sell and value in use.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of other assets in the CGU or on a pro-rata basis.

An impairment in respect of goodwill is not reversed. For other assets, an impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Note 7. Intangibles assets (continued)

	Consolidated 2022 $'000	Consolidated 2021 $'000
Software development costs	92,558	75,484
Less: Accumulated amortisation	(58,771)	(37,562)
	33,787	37,922
Customer list (acquired through business combinations)	18,675	19,084
Less: Accumulated amortisation	(6,858)	(4,717)
	11,817	14,367
Goodwill (acquired through business combinations)	114,583	117,650
Trademarks (acquired through business combinations)	6,979	7,278
	167,166	177,217

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

Consolidated	Software development costs $'000	Customer list $'000	Goodwill $'000	Trademarks $'000	Total $'000
Balance at 1 July 2020	22,211	7,004	39,625	579	69,419
Additions	19,675	-	-	-	19,675
Additions through business combinations	12,916	9,100	76,738	6,582	105,336
Amortisation expense	(17,108)	(1,892)	-	-	(19,000)
Revaluation of business combinations	-	-	(243)	-	(243)
Effect of movements in exchange rates	228	155	1,530	117	2,030
Balance at 30 June 2021	37,922	14,367	117,650	7,278	177,217
Additions	17,761	-	-	-	17,761
Amortisation expense	(21,682)	(2,168)	-	-	(23,850)
Effect of movements in exchange rates	(214)	(382)	(3,067)	(299)	(3,962)
Balance at 30 June 2022	33,787	11,817	114,583	6,979	167,166

Note 7. Intangibles assets (continued)

Goodwill and intangible assets with indefinite useful lives are allocated to the two CGUs being Small business solution and Mid-market business solution as follows and tested annually for impairment.

	Consolidated			
	2022		2021	
	Trademark $'000	Goodwill $'000	Trademark $'000	Goodwill $'000
Small-business solution	2,579	30,766	2,678	31,475
Mid-market business solution	4,400	83,817	4,600	86,175
	6,979	114,583	7,278	117,650

The recoverable amounts of the CGUs to which the assets have been allocated have been determined based on value-in-use calculations using a five-year cash flow forecast from internal budgets and long-term management forecasts. A terminal growth factor that estimates the long-term growth for the CGU is applied to the year 5 cash flows into perpetuity. The terminal growth rates do not exceed the long term expected industry growth rates. These calculations are performed based on cash flow projections and require the adoption of assumptions and estimates.

The key assumptions used in the estimation of the recoverable amounts are set out below. Each of these assumptions and estimates is based on a best estimate at the time of performing the valuation. The values assigned to the key assumptions represent management's assessment of future trends and based on historical data from both external and internal sources.

	2022		2021	
	Small business solution %	Mid-market solution %	Small business solution %	Mid-market solution %
Pre-tax discount rate	14.4	11.3	14.56	11.12
Terminal value growth rate	2.5	2.5	3.0	3.0

Based on the impairment assessment conducted, no impairment losses have been identified or recognised for the year ended 30 June 2021.

Note 8. Leases

Accounting policy

Definition of a lease
The determination of whether a contract contains a lease is on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration and holds substantially all of the output of the asset. The Group has applied this definition to all lease contracts currently held

Lessee accounting
For all contracts determined to constitute a lease, right-of-use assets and lease liabilities are recognised in the consolidated statement of financial position, initially measured at the present value of the minimum future lease payments. When measuring these lease liabilities, the Group discounted lease payments using the interest rate implicit in the lease contract.

Right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of assets*. Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities. Depreciation is expensed on right-of-use assets and interest expense on lease liabilities, both recognised in the consolidated statement of profit or loss.
For presentation purposes, the total amount of cash paid in relation to leases is separated into a principal portion (presented within financial activities) and interest on lease liabilities, both recognised in the consolidated statement of profit or loss.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis. This expense is presented within other expenses in the consolidated statement of profit or loss.
Lessor accounting

The Group assesses the classification of the sub-lease commenced during the financial year with reference to the right-of-use asset, not the underlying asset. Upon commencement of the sub-lease the right-of-use asset held by the Group as the intermediate lessor is derecognised, recognising a lease receivable being the present value of sub-lease payments to be received with any gain or loss being recognised in the profit or loss.

Right-of-use assets

	Consolidated $'000
Net carrying amount as at 1 July 2020	14,991
Additions	7,641
Derecognition of right-of-use asset	134
Depreciation	(3,992)
Net carrying amount as at 30 June 2021	18,774
Additions	8,725
Impairment	(625)
Depreciation	(5,209)
Net carrying amount as at 30 June 2022	21,665

Note 8. Leases (continued)

Right-of-use assets (continued)

	2022 $'000	2021 $'000
Amounts recognised in profit or loss in relation to leases		
Interest expense	1,326	1,177
Expense relation to low value assets	76	184
Expense relating to variable lease payments not included in the measurement of the lease liability	1,008	547
Cash flow from leases		
Total cash outflow as a lessee	5,860	4,654
Income from sub-leasing of right-of-use-assets	85	226

Finance lease receivable

	Consolidated	
	2022 $'000	2021 $'000
Current finance lease receivable (recoverable within 12 months)	-	82
Non-current finance lease receivable (recoverable after 12 months)	-	-

Lease liabilities

	Consolidated	
	2022 $'000	2021 $'000
Amounts due for settlement in less than 12 months (current)	5,825	4,041
Amounts due for settlement in more than 12 months (non-current)	22,540	20,155

	Consolidated	
Maturity analysis	2022 $'000	2021 $'000
Not later than 1 year	5,825	4,041
Later than 1 year but not later than 5 years	22,540	18,771
Later than 5 years	-	1,384
	28,365	24,196

The lease liabilities are interest bearing at an average rate of 6% based on the interest rates implicit in the lease contract. There are options to extend included in several of the lease contracts held. As at 30 June 2022 any options to extend leases which have not been or expected to be exercised based on current business operations and needs of the individual locations have not been included in the lease calculations. There would be no significant impact on the financial statements in relation to these options. There are no other future cash flows anticipated in relation to leases held which have not been disclosed in the financial statements.

Note 9. Loans and borrowings

Accounting policy Bank loans are initially recorded at fair value less directly attributable transaction cost. Subsequent accounting is amortised cost.

	Consolidated	
	2022 $'000	**2021 $'000**
Non-current liabilities		
Secured bank loans	40,500	30,000

On 14 December 2021 the Group secured an increase in the existing debt facility with the Commonwealth Bank of Australia (CBA) of $11.0 million, of which $10.5 million had been drawn down as at 30 June 2022.

Note 10. Business combinations and acquisition of business assets

There were no acquisitions during the year ended 30 June 2022. In the prior year the Group acquired interests in the Breathe and Webexpenses entities as summarised in the table below:

	Breathe $'000	**Webexpenses $'000**
Net tangible assets	95	609
Cash	-	954
Customer list	4,089	5,011
Software	4,925	7,991
Trademark	2,678	3,904
Other assets	658	2,597
Contract liability	(724)	(1,136)
Deferred tax liability	(2,237)	(3,293)
Other liability	(956)	(3,051)
Net identifiable assets acquired	8,528	13,586
Goodwill on acquisition	31,475	45,263
Fair value of the total consideration at acquisition comprising:	40,003	58,849
Cash	29,058	18,112
Shares	3,669	17,554
Contingent consideration	7,276	23,183

For FY22 there was a net fair value adjustment to the contingent consideration for Webexpenses of $26.3 million (FY21: Breathe and Webexpenses of $4.1 million) (see note 11) to reflect the expected performance of the entities compared to expectations at the acquisition date, which has been recognised in the profit or loss statement.

Note 10. Business combinations and acquisition of business assets (continued)

Deferred/contingent consideration paid

Acquired entity	Consideration settled in shares $'000	Consideration settled in cash $'000
Settled in FY22		
Breathe	-	21,273
Settled in FY21		
BoxSuite	-	105
HROnboard	-	5,234
Vocam	-	500

As at 30 June 2022, consideration has been settled in final in relation to Breathe.

Note 11. Financial risk management

The Group has exposure to the following risks arising from financial assets and liabilities:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the Audit and Risk Committee, which includes responsibility for developing and monitoring the Group's risk management policies. The Committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The role of the Audit and Risk Committee for the Group is to:

- Provide oversight of the integrity of internal financial reporting and the external financial statements;
- Review the effectiveness of the internal financial controls;
- Review the independence, objectivity and performance of the external auditors; and
- Provide guidance on risk management,

The Group maintains a comprehensive risk exposure matrix which is regularly reviewed, monitored and updated. As part of the risk management strategy the Group constantly evaluates risk and risk acceptance.

Note 11. Financial risk management (continued)

Accounting policy

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market. Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement. For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Contingent consideration

The consideration transferred in a business combination is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued, or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability are recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Note 11. Financial risk management (continued)

Accounting classifications and fair values

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Group has no other contingent liabilities, except for the acquisition related contingent consideration disclosed above.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount: Fair value through P&L		**Fair value hierarchy**
	2022 $'000	**2021 $'000**	
Contingent consideration	39,791	35,547	3
Forward exchange contracts	-	400	2

	Consolidated	
	2022 $'000	**2021 $'000**
Opening balance as at 1 July	35,547	6,102
Settlement of HROnboard	-	(5,603)
Acquisition of Breathe	-	7,276
Acquisition of Webexpenses	-	23,183
Settlement of Breathe	(21,273)	-
Changes to fair value in contingent consideration	26,319	3,866
Changes in foreign exchange rate	(802)	723
Closing balance *(i)*	39,791	35,547
Due in less than 1 year	39,478	35,234
Due in more than 1 year	313	313

(i) *Includes $38.7 million to be settled in shares for Webexpenses contingent consideration*

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Contingent consideration	The fair value is based on a multiple of ARR for each acquisition at a future point in time.	Expected ARR	The estimated fair value would increase/(decrease) if the ARR were higher/(lower)
Forward exchange contracts	The fair value is based on fluctuation in exchange rates since the inception of the forward contract.	Not applicable	Not applicable

Note 11. Financial risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations; related to trade receivables and lease receivables for the Group.

The average credit period on sales of products and services is 30 days. No interest is charged on outstanding trade receivables. The Group always measures the loss allowance for trade receivables at an amount equal to 12 month expected credit losses. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtors current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry and an assessment of both current and forecast conditions.

New customers are typically invoiced in advance of their contract commencing with annual renewals also being due for payment in advance of the renewal anniversary. Receivables held are monitored on an ongoing basis to minimise the Group's exposure. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables.

Liquidity risk

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by cash or other financial asset. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, without incurring unacceptable losses or risking damage to the consolidated entity's reputation. This risk is managed through constant monitoring of cash resources and future obligations.

The following are the remaining contractual maturities of financial liabilities at the reporting date:

Maturity profile	**Loans and borrowings** *(i)*	**Trade and other payables**	**Deferred and contingent consideration**	**Lease liabilities**
	$'000	**$'000**	**$'000**	**$'000**
Within 1 year	-	14,451	39,478	5,825
1-2 years	-	-	313	22,540
2-5 years	40,500	-	-	-

(i) Interest due on the CBA loan is determined by the average bid rate on the drawn balance plus a margin of 1.8%.

The Group has a cash and term deposits balance of $47.9 million at 30 June 2022, which includes a security deposit of $20.25 million in the form of a term deposit, relating to the loan facility. This strengthens the Group's financial liquidity in the current market and will allow the Group to not only weather the current crisis but continue to invest in the business. In the event that further resources are required the Group has the potential to raise additional funds through a capital raising and/or acquire further debt.

Interest rate risk

The Group holds a bank loan which is subject to interest rate risk as well as lease liabilities held. The interest rate will be the average bid rate in addition to a margin applied. The interest charged on the lease liabilities is implicit in the lease and is fixed for all leases currently held and committed.

Note 11. Financial risk management (continued)

Market risk: Currency risk
The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investment in foreign subsidiaries.

Forward contracts which were taken out in the prior financial year in order to manage the currency exposure in relation to acquisition earn-outs have been settled during the current year following the finalisation of the Breathe earn-out and conversion of the Webexpenses earn-out to primarily share-based settlement.

ELMO's financial statements are presented in Australian Dollars with only a small proportion of sales denominated in overseas currencies as denoted under note 4 *Revenue from contracts with customers* and these transactions are conducted at spot rates as necessary in normal operations.

Note 12. Equity: share capital and reserves

Accounting policy

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary shares issued and fully paid	**Shares**	**$'000**
As at 1 July 2020	**85,659,114**	**214,156**
Issue of shares – Breathe Acquisition	699,765	3,669
Issue of shares – Webexpenses Acquisition	2,805,650	17,554
Vesting of Performance Rights and exercise of options	58,786	316
As at 30 June 2021	**89,223,315**	**235,695**
Vesting of performance rights and exercise of options	460,302	3,622
Issue of shares to employees	443,599	-
Issue of shares to third party provider	65,775	-
At 30 June 2022	**90,192,991**	**239,317**

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.

Share buy-back
There is no current on-market share buy-back.

Note 12. Equity: share capital and reserves (continued)

Capital risk management
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. For the current and prior periods, no dividends have been paid or proposed.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.
The capital risk management policy remains unchanged from the 30 June 2021 Annual Report.

Nature and purpose of reserves

	Consolidated	
	2022 $'000	**2021 $'000**
Foreign exchange translation reserve	910	866
Share-based payment reserve	12,880	4,699
	13,790	5,565

(i) Foreign exchange translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(ii) Share-based payment reserve
The share options reserve comprises the value of the share-based payment arrangements recognised in equity.

Note 13. Events after the reporting period

No matter or circumstance which has arisen since 30 June 2022 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.