

# FY20 HALF-YEAR RESULTS SPEECH

Good morning and welcome to today's half-year results presentation for the six-month period ending 30<sup>th</sup> September 2019.

My name is Darrin Grafton. I'm Serko's CEO. I'm here with Susan Putt, Serko's CFO.

On the back of our recent announcement relating to our capital raise and expanded agreement with Booking.com, I am pleased to report that our half-year results as reported as part of that announcement remain substantially unchanged.

During the half-year, we continued to increase our investment into our travel and expense platforms as demand for our products grew both within our home markets and new territories. We achieved a 29% increase in operating revenue, as we continue to grow market share in our home markets of Australia and New Zealand as well as growing our Average Revenue Per Booking (ARPB) in line with our strategy.

We have made good progress in our Northern Hemisphere expansion. We will cover off more detail around the Northern Hemisphere expansion and provide an update on our upcoming activities over the next 20 minutes.

You should have the presentation that we released to the stock exchanges earlier this morning in front of you and we will start on Slide 4.

**SLIDE 4** (*Agenda*)

Susan is going to kick off shortly with an overview of the financial results for the six-month period. I will then give you an update on key strategic developments and cover the outlook for the second half.

We will have time for questions at the end of the presentation.

For now, I will pass you over to Susan to cover Financial Highlights and she will start on slide 6

**SLIDE 6** (*Performance Dashboard*)

Thanks Darrin – I'm going to cover off our key measures of financial performance that we report every six months. I will then go into more detail on some items in the following slides.

While EBITDAF was positive at \$1.4 million, overall for the period Serko had a net loss of \$0.9m after tax, with the difference including non-cash items, which I'll cover on the next slide.

Our Operating Revenue was up 29% at \$14.7 million for the half, with 91% representing recurring product revenues sources. Core Product Revenues were up 38% to \$13.3 million. Total Income, including grants, was \$15.2 million, up 29% over the prior period.

Annualised Transactional Monthly Revenue (ATMR) – which provides an indicator of future growth potential of Serko’s annual recurring revenue – reached a peak during the six-month period at \$26.2 million, up 35% against the prior year comparative.

Total transactions across our travel platforms grew 4.5% over the same period last year.

R&D spend was \$8.9 million for the period and was up 132% from the prior period, which shows the increased development that is being invested in the product for new territory expansion.

Operating costs increased 46% over the prior period.

**SLIDE 7** (*Net Profit Summary; EBITDAF reconciliation*)

Moving forward to slide 7.

This slide shows the summary profit statement and the reconciliation of Net Profit to EBITDAF.

In the half year to 30 September 2019, we generated EBITDAF of \$1.4 million which was an EBITDAF margin of 10% on Operating Revenue of \$14.7 million. This is largely in line with the prior year at \$1.5 million.

The reconciliation between EBITDAF and the net loss of \$0.9 million primarily relates to non-cash items and includes:

- fair value adjustments of \$0.6 million, related to the contingent consideration due for the InterplX acquisition,

- depreciation & amortisation of \$1.3 million,
- as well as unrealised foreign exchange revaluations, included in finance expenses.

The adoption of the NZIFRS 16 relating to Leases results in \$0.5 million of rental costs being included in depreciation and interest expense from 1 April 2019. We have made no restatements in the calculation of EBITDAF related to this. Information on this change of accounting policy is disclosed in the half year accounts released today.

**SLIDE 8** (*Revenue Breakdown*)

Slide 8 shows revenue breakdown by type of revenue and by geography.

Total Operating Revenue is made up of various sources: Travel platform revenue; Expense platform revenue; Content revenue from commissions, and Other Revenue, which largely represents miscellaneous license revenue, and Services Revenue.

Travel platform revenue grew 20%, significantly more than the 4.5% increase in transaction volumes of 2.2 million for the period. This reflects the uplift in ARPB that Serko is achieving through its transition to Zeno contracts.

ARPB on recurring revenue was \$6.05 for the period calculated as total recurring revenue divided by 2.2 million total travel bookings.

Expense platform revenue at \$3.0 million, which includes revenue from the InterplX acquisition of \$1.9 million, continued to grow strongly at 238% for the half. The growth related to Serko Expense was 22%.

Content revenue, from commissions earned beyond the basic booking fee, remained steady against the prior year as the roll-out of Zeno into new markets took priority over the integration of new content sources during the period. While not growing for this period, content commissions remain a core part of Serko's strategy to provide customers with a complete suite of end-to-end journey offerings. Accordingly, content commissions are expected to lift ARPB over time, primarily via the increased uptake of Zeno and the additional content available through Booking.com. Darrin will cover more in relation to this under Strategic Updates.

Total Services revenue was down 21% due to development resources focused on North American activation.

In relation to movements in earnings in the various geographies, you can see that the growth is primarily related to North America and New Zealand. The North American revenue is primarily related to US-sourced commission incomes and the Expense Revenue from InterplX. New Zealand growth represents the transition of Orbit customers and the minimums of that contract recognised over the term of the contract in accordance with IFRS 15 Revenue Recognition criteria. Australian sources grew 10% representing the high level of market share that Serko has in that market with limited transactional growth. Growth in this segment is expected to come from Zeno pricing uplifts.

## **SLIDE 9 (Operating Expenses)**

I now turn to Slide 9 – Operating expenses. This slide outlines the categories of expenditure. Operating costs increased to \$15.7 million for the period, up 46%. This was mainly as a result of increased head count and costs associated with the expansion into NORAM markets, and also includes the InterplX operating costs post acquisition. The number of full-time equivalents at 30 September 2019 was 208, representing a net increase of 35 FTEs (46%) since 31 March 2019.

## **SLIDE 10 (Research & Development)**

Slide 10 – ‘Research & Development’ outlines the development spend – both capitalised (Development) and expensed (Research) during the period.

During the period total R&D spend was \$8.9 million, up 132% over the prior half year, and represents 61% of operating revenue.

The portion of capitalised spend at \$6.3 million is up significantly over the prior period and represents 71% of the total spend. These capitalised costs are reflective of the investment we are making in developing our product to cater to new territories. This investment is backed by the increasing demand that Serko is receiving through the signed agreements for global expansion.

The Research costs which were not capitalised during the period amounted to \$2.5 million.

Net of government grants for research and after amortisation of previously capitalised development, the product development costs expensed for the period were \$2.8 million and represents 19% of operating revenue.

**Slide 11** - I am now going to pass you back to Darrin to cover off our Strategic Update.

**SLIDE 12** (*Serko Strategy*)

Thanks Susan. Turning to Slide 12

As we have presented in the past, Serko has a three-pronged strategy of growing our customer base, increasing ARPB and delivering market-leading technological innovations to underpin our platform for global expansion.

We partner with global Travel Management Companies (TMCs) who are resellers of our products in Australasia. These partnerships continue to be extended to enable the roll-out of Zeno and Expense into northern hemisphere geographies.

We have recently announced extended agreements with CWT, Flight Centre and ATPI as well as local TMCs in NORAM. These organisations serve the managed corporate travel market.

We also are partnering to target small and medium sized enterprises to use our self-onboarding functionality to grow our share of the unmanaged corporate travel market. The Booking.com expanded agreement recently

announced is an example of that strategy, which I will cover in more detail shortly.

Turning to Slide 13

**SLIDE 13** (*Serko Strategic Goal*)

As announced at the 2019 Annual Meeting in August, Serko has an aspirational goal to achieve NZD\$100 million annualised run-rate revenue. This can be achieved through 5 million transactions per annum in each of the targeted geographies of Australasia, North America and Continental Europe each at an ARPB of \$7.

ARPB was at \$6.05 over the current half-year. Annualised transactions are approaching 5 million within Australasia. In the peak months of May 2019 and October 2019, the monthly transactions achieved in those months, if annualised by multiplying by 12, exceeded 5 million.

The pipeline of previously signed business in North America lays a solid foundation upon which to build and achieve this goal in that region. The expanded agreement with Booking.com is expected to add to the NORAM and European pipeline of transactions; and the additional content that Booking.com can bring to Zeno is expected to further increase ARPB.

I believe Serko is in a strong place to execute on its strategy and its strategic target revenue.



**SLIDE 14** (*Booking.com Agreement*)

Turning to Slide 14 to explain in more detail the Booking.com agreement. As announced in late October, Serko has signed an expanded agreement with Booking.com, which was entered into concurrently with a \$17.5 million investment into Serko by Booking Holdings' as part of the \$40 million primary placement recently undertaken by Serko.

Booking Holdings is a NASDAQ listed company with more than 26,500 employees and a current market capitalisation of USD\$83 billion.

It is fantastic to partner with Booking.com, the world leader in online travel and related services. Partnering with Booking.com introduces additional content to advance our aspiration of achieving the 'Unified Traveler Experience' which will assist corporate travelers with simplicity and compliance while making our resellers more profitable. The Serko and Booking.com agreement will accelerate our journey towards our vision of seamless corporate travel and expanding our growth outside of Australasia.

Booking.com is the world's leading brand of booking accommodation, which includes home share accommodation that Serko will now gain access to for its corporate users to book through Zeno. Other brands include Priceline, Kayak, Agoda, Rentalcars.com and Opentable. Serko will be able to access these through the expanded agreement, adding functionality to Zeno over time.

Booking.com and Serko share the vision of the 'whole of journey' management for the corporate traveller and believe this will benefit the TMC as well as the corporate customer.

Following the completion of initial development work, Booking.com is expected to offer and promote Zeno to its business traveller customers. As additional development is completed over time, it is expected to include further content, further extend the availability to make rail bookings and provide optionality to offer Zeno in a number of additional languages. Serko has performed a test of translating its product into various languages and used the Maori language as an example, which was released as part of Maori language week in September.

While the Booking.com agreement is expected to assist Serko in achieving its medium-term aspirational target of NZ\$100 million annualised run-rate revenue, the expanded agreement is not expected to have a material impact on Serko's revenues in the current financial year to 31 March 2020. This is due to the phased development work required and a performance-based rollout plan for Booking.com's global business traveller customers. If achieved as anticipated the expanded agreement is expected to result in a material uplift in Serko's revenue (via increased ARPB) in the 2021 financial year and beyond.

**SLIDE 15** *(Other Strategic Updates)*

Turning to Slide 15 and highlighting some other achievements over the period.

We continue to grow our market share, and as mentioned earlier we are nearing 5m transactions in Australasia on a run forward basis.

We grew the number of corporations on Serko Online and Zeno by a net 327 over the half-year period. Over 1,300 corporate customers transacted on Zeno during the six-month period to 30 September 2019. Zeno transactions increased by 200% over the same period last year and in September represented 13% of Online bookings. This has grown to 15% in October and is expected to continue to grow each month as TMC's complete their planned migrations.

We have invested heavily in the Serko Zeno platform for expansion into the North American markets during the period. Serko now has live bookings in North America following beta release in September.

Custom Travel Solutions has commenced using the product and now has three corporates making live bookings. FCM, Direct Travel and CWT are in user acceptance testing phase.

ZS Associates reviewed the product last year and were committed to using the product and are now using the system through Luxe Travel, who are part of the wider Radius buying group. This agreement will allow the 100 other TMC resellers of the group to also offer Zeno. Radius group transacts

approximately 30bn in travel spend annually. We expect transactions to grow in the second half of the financial year with the continued onboarding of new corporates, as signed TMCs complete their user acceptance testing and progress to pilot customers.

UK markets, while not material to the period, continue to grow. Investment continues in Europe, however, at a slower rate than originally planned due to prioritisation of the NORAM market roll-out. It is intended that a portion of the proceeds of the capital raising will be used to accelerate development of the European market.

As disclosed in the capital raise, Serko is also currently in advanced commercial discussions with a global payments provider to provide a similar white label version of Serko Zeno to its SME customers, initially in Australasia, with the potential to offer in additional geographies in the future. Commercial arrangements are currently under negotiation and have not yet been entered into. Serko will make an announcement to the market in relation to this white-label opportunity if and when discussions result in an executed commercial contract.

Serko also continues to invest in NDC. NDC or New Distribution Capability is a travel industry-supported program launched by IATA for the development and market adoption of a new XML-based data transmission standard that enhances the capability of communications between airlines, travel agents and aggregators.

The expansion of content and ancillary offerings through NDC offers new revenue stream opportunities through Zeno. Serko has committed to support NDC via both direct connection and GDS, and has announced NDC partnerships with Qantas, Air Canada, Southwest Airlines and ATPCO's NDC Exchange in the past 12 months. Zeno is now live with end-to-end NDC booking capability through the Qantas Distribution Platform (QDP), following a successful pilot with launch partner CT Connections.

### **SLIDE 16 & 17 *Outlook Statement***

I now turn to Slide 17 to cover our Outlook statement.

Serko continues to expect Total Operating Revenue to grow 20% to 40% for the year ending 31 March 2020. As previously advised, currency fluctuations and the timing of customer onboarding will be key factors in determining our final result.

Growth in 'same corporate' bookings in Australasia has softened over the past few months, which we attribute to a general slowdown in the Australian and New Zealand economies and declining business confidence. Nevertheless, we have continued to grow revenue in our home markets thanks in no small measure to the uptake of Zeno. We continue to focus on global expansion, and this will assist Serko to mitigate any local market slow down.

Serko continues to invest in its global expansion, particularly in North America. The capital raising and the expanded agreement with Booking.com will allow us to accelerate that expansion, particularly in continental Europe.

Cash burn for the six-month period was \$5.5 million. Serko expects continued cash burn for the second half as development work is accelerated to support new market expansion. Cash balances at 31 October 2019, post the primary capital raise, were \$48.6 million with a further \$5 million expected to be raised from the oversubscribed retail Share Purchase Plan which closed last week.

We expect transactions to continue to grow in the second half of the financial year with the continued onboarding of new corporates as our Travel Management Company partners complete user acceptance testing of Zeno and progress to pilot customers.

The timing and extent of uptake by new corporates in Northern Hemisphere markets is unknown and is subject to variables. Continued development of additional local content in these markets is expected to further increase bookings and support the migration of additional corporates to our platforms.

European markets are not expected to contribute materially in the current financial year (due to our prioritisation of the NORAM roll-out). However, a portion of the proceeds of the recent capital raising will be used to accelerate development of the European market resulting in FY21 revenue gains.

Turning to Slide 18.

**SLIDE 18 (Q&A)**

That completes our presentation and before I turn to Q&A as per slide 18, I draw your attention to our Appendix slides after slide 18 for further information.

I will now hand back to the moderator to facilitate the Q&A.

**[At the end of Q&A]**

Thank you everybody for joining us on the call today. We look forward to talking with you over the next few days for those who have scheduled an investor meeting.

If, in the meantime, you have any questions, then please do not hesitate to come back to either Susan or me.

Thanks once again.

#ENDS