FY18 RESULTS SPEECH

Good morning and welcome to today's results presentation for the year ended 31st March 2018, our 2018 Financial Year.

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

You should have the presentation that we released to the NZX earlier this morning in front of you.

We will walk you through that presentation over the next 20 minutes. Please start at Slide 3.

SLIDE 3 *(Agenda)*

We are extremely pleased with what we have achieved over the year. We have delivered our promised profit and ended the year recording Profit before tax of $2 million on total income, including our grants, of $19.3 million. We have maintained our laser focus on execution of our strategy and readied our technology for the global market place. We expected to achieve break-even in the second half with our expansion plans. The actual results were an EBITDA profit of $2.2 million versus a first half result of $1.3 million. The difference was primarily attributable to savings associated with timing of new hires as well as some new operating efficiencies. The costs associated with new hires is expected to be incurred in the first quarter of FY19, as we execute on our Northern Hemisphere contracts.

Susan will give you a more detailed review of the financial results for the year. I will then give you an update on key strategic developments and then cover the outlook for the 2019 Financial Year.

We will then have time for questions at the end.

For now, I will pass you over to Susan to cover slide 4

SLIDE 4 *(Strong Improvement in Key Measures)*

Hi – Slide 4 provides an overview of our key metrics. As you can see we have had a solid performance against all metrics with the results for the full year continuing our strong story from our first half.

Some metrics are marginally down from the first half. The second half is our weaker half due to seasonality of the Dec/Jan holiday period affecting corporate travel. This can have the effect of reducing revenue by up to the equivalent of one month. However, revenue in the second half of FY18 was $9.2 million and exceeded first half revenue of $9.1 million, reflecting our underlying business growth. Our total operating revenue for the year, at $18.3 million, was within the guidance range that we gave at half-year of $18 to $19 million.

I will cover our key metrics at a high level and go into more detail in the following slides.

Net profit before tax for the full-year of $2.0 million represents a $5.3 million turnaround from the loss of $3.3 million last year.

ATMR – which provides an indicator of future growth potential of Serko's recurring revenue – reached a peak of $18.4 million in February.

Transactions across our travel platform grew 20% over last year and contributed to a 28% increase in Total Operating Revenue to $18.3 million.

Recurring revenues represented approximately 90% of Total Operating Revenue at $16.4 million and were up 27% on the prior year's $12.9 million.

Total income, including grants and other revenue sources, was $19.3 million.

R&D spend was $4.9 million, down 16% from the prior year. The capitalised portion was minimal at $0.4 million, with the majority expensed. R&D spend represented 27% of revenue for the period.

Operating costs also decreased 6% over last year and, coupled with accelerating revenues, meant we were cash-flow positive and profitable for the year.

The performance of the business indicates the success of our strategy and we are in a good place moving forward to support our growth plans.

SLIDE 5 *(ATMR Rises in Line with Strong Transaction Growth)*

Moving forward to slide 5.

The graph on the left shows transaction volumes. The strong upward trend continues.

As mentioned earlier, transaction volumes are up 20% over the prior year and this has translated into growth in ATMR to $18.4 million as shown on the graph on the right.

ATMR represents a calculation of transactions per month standardised for business day fluctuations and then multiplied by Average Revenue Per Booking. This figure is then annualised and adjusted to remove fluctuations attributable to foreign exchange movements. We use this measure as an indication of business momentum for our recurring revenue.

Our February ATMR of $18.4 million represents an increase of 24% over February 2017 of $14.8 million. We used February as our peak ATMR for 2018 as March, being the last month for the year, was affected by seasonality. Corporate travel booking drops during holiday periods when personal travel increases. March 2018 was affected by Easter falling over the March/April period in 2018, whereas March 2017 was unaffected by holidays.

Our recurring product revenue at $16.4 million for the year compares favourably to last year's ATMR of $15.3 million. Thus $18.4 million for this year is an indicator of progress towards achieving next year's recurring product revenue goals.

SLIDE 6 (*Strong Revenue Growth Across all Categories*)

Moving to Slide 6. The table provides a breakdown of Total Operating Revenue into its various sources:

- Travel Platform revenue;
- Expense platform revenue;
- Supplier commission Revenue,
- Other Revenue (which largely represents miscellaneous mobile license revenue), and
- Services Revenue which is non-recurring.

Strong revenue growth was experienced across all categories.

The 23% increase in revenue from our Travel Platform largely correlates with the 20% increase in transaction volumes. In the current year, compared to last year, currency impacts did not impact significantly on operating revenue. Last year a 18% increase in transactions only translated to a 9% increase in revenue due to currency impacts and low minimum volume commitments recognised in 2017 compared to 2016. The difference over and above the booking volume increase for 2018 is due to minimum volume commitments recognised for the current year.

Minimal volume commitments result from contractual obligations recognised when actual volumes transacted are less than the stated contractual commitments. In 2018, minimum contractual payments of $577,000 have been included and represent 4% of travel platform revenue.

As previously announced, we have a contract with Sabre to replace their system, Sabre Online. Customers previously on Sabre's system, which now has an end of life date in May 2018, are currently transitioning to the Serko-provided Sabre solution (Sabre powered by Serko) or directly to Serko's other solutions via Travel Management Companies who already use Serko products. Minimums this year also include commitments from Tandem Travel (Air New Zealand's corporate travel division), who are also migrating off the Sabre system onto Serko's Zeno platform. This pipeline of customers is expected to positively impact next year's results as the minimums recognised this year are less than the value that would be received if these volumes had transacted for a full-year on Serko platforms.

The growth in recurring sources from Serko Expense, up 37% over last year, reflects the success of our Travel Management Company reseller programme introduced in prior years.

Supplier commission revenue is now significant at $1.3 million and meaningfully contributing to recurring revenues. This shows the success of our key strategy to increase Average Revenue per Booking (ARPB) by adding new revenue streams to our booking platform. It is up 72% over last year, nearly matching the income generated by our expense platform.

The attachment rate – or the share of bookings generating revenue from additional content – has grown from 3.8% over 2017 to 5.4% for 2018 on a growing transaction base.

Other revenues grew by 40% and include license fees for Serko Mobile.

Total Services revenue was up 35% over the prior year. This also reflects the increase in payments from content suppliers for the integration of their content to our travel platform as well as growth in the paid work to configure our platforms for customer needs as we onboard new and transitioning corporate customers to our travel and expense platforms. A significant portion of the Service revenue also relates to work completed with Flight Centre in assisting their migration from Travelport, as their GDS provider, to Sabre.

Other revenue, which includes Government grants of $0.96 million was largely in line with prior year at $1.07 million.

SLIDE 7 (*Operating Efficiencies*)

Moving to Slide 7.

Compared to the revenue uplifts, we achieved economies of scale through decreasing costs.

Much of the decrease in R&D and operating costs was due to the restructuring undertaken in FY17, including the integration of the Arnold platform at the end of the first half of FY17. We are now benefiting from this lower cost base.

Total operating expenses were down 6% from prior year by $1.1 million for a total of $17.7 million, mainly related to a decrease in remuneration and benefit expenses.

Remuneration costs decreased from $12.3 million to $11.7 million. Included was $1.3 million related to long-term incentives in the form of employee share-based payments and short-term incentive performance payments for 2018, compared to $1.0 million in the prior year. EBITDA before incentives would have been $3.5 million.

Selling and marketing expenses at $1.3 million decreased as a result of a focus on assisting the TMCs to resell the Serko products rather than related direct sales and marketing support while Zeno was in early stages. With the launch of Zeno in Australasia, as well as to Northern Hemisphere markets, Serko expects selling costs to increase relative to revenue increases in 2019 as the product launch is supported.

Administration costs at $3.7 million were slightly lower than the prior year mainly due to a decrease in depreciation and amortisation. Depreciation and amortisation at $0.6m was $0.2m lower than the prior year due to the low value of intangibles. At March 2018, intangibles are $1.6 million.

Other expenses at $1.1 million, mainly consisting of hosting costs, increased as expected with increases in revenue. However, through efficiency savings, these costs increased 13% while revenues increased 28%.

Operating expenses as a percentage of operating revenue decreased 34% to 97%. EBITDA margin was 12%.

R&D costs, both expensed and capitalised, at $4.9 million have declined during the year by 16%, due to a decrease in the number of development staff. This was due to the integration of the Arnold platform in the first-half of the prior year. Software development resource, used to support a higher level of Services Revenue in 2018, has been also excluded from R&D. R&D costs represented 27% of operating revenue for 2018.

Capitalised development costs have declined from $0.8 million last year to $0.4 million this year. The majority of costs focused on research at $4.5 million, of which $1 million was funded through government grants received from Callaghan Innovation.

Research costs were applied to advance our ideas of how Zeno would work to improve the traveller booking experience, including predictive booking, natural language transactions and chat bots to assist traveler booking which have been included in our Ask Zeno functionality. Darrin will cover off these developments under our strategic initiative review.

We expect capitalised development costs to increase in 2019 with further Zeno development as a result of integration of local content for Northern Hemisphere markets and new functionality which will further contribute to increased revenue in 2020 as we add additional new revenue streams.

SLIDE 8 (*Profit Turnaround*)

Now on Slide 8.

We achieved both EBITDA positive and Profit before and after tax positive as a result of the increase in revenue while controlling costs.

EBITDA, which gives a good indication of the cash-based profits available from operations was $2.2 million. This represents a turnaround of $4.7 million compared to a loss of $2.5 million last year.

Thanks to the strong growth in EBITDA, we achieved positive cash flows for the year. Our net cash position at the end of the period was $5.2 million up from $4.5 million as at the end of March 2017.

In summary, Serko has delivered a solid financial result. Strong improvements in all revenue categories and careful management of costs to achieve economies of scale, has led to Serko achieving a maiden profit and positive cash flows.

I am now going to pass you over to Darrin to cover-off our Strategic Outlook on Slide 9.

SLIDE 9 *(Strategic Focus Recap)*

Thanks Susan.

As we have previously communicated, Serko has a three-pronged strategy: to deliver market-leading technological innovations to underpin our platform for global expansion; to grow our customer base; and to increase Average Revenue Per Booking.

Key to this strategy of innovation has been the development of Zeno, our new premium service, which is creating momentum for the company to grow its customer base into new territories as well as setting a new benchmark for online travel and expense tools within Australasia.

SLIDE 10 (Zeno)

Moving to Slide 10. We have launched Zeno in our second half of FY18 both into our current market and into our targeted Northern Hemisphere markets.

Zeno allows customers to book all their business travel services through one interface that is at their fingertips.

Customers are able to make these bookings easily and in compliance with their employers' travel management policies with minimal stress and administration.

As previously announced we signed a global reseller agreement with ATPI and today, we are pleased to announce our agreement with Voyages Travel Encore, a Canadian Travel Management Company.

Zeno, with its intelligent recommendations, gives users who regularly travel a booking flow that is both visually rich and smart based on their past travel patterns. Zenos leading-edge user interface allows customers to book travel door-to-door with minimal effort and within the Corporate's travel policy. With rich information available for flights, hotels, transfer and rental cars suggested as a complete itinerary, Zeno can drive down the costs associated with travelling and, as one customer put it, creates "a jaw dropping simple user experience".

We expect to rollout our Ask Zeno service this year. Ask Zeno is a chat and voice-activated tool that takes advantage of our predictive booking solutions and enables travel bookings on the fly. And because Ask Zeno talks to the Zeno back-end, every question and every answer is run through the same set of policy checks and rules that are used in our mobile or desktop booking applications.

I want to now expand on how Zeno will be further developed from here.

SLIDE 11 *(Innovating for the Future)*

I am now on Slide 11.

When we built Zeno, our mantra was “No more compromises”.

- For the traveller, we built the travel experience to match leisure travel booking experience,
- The travel booker to have a new more powerful dashboard, and controls that give visibility of spend,
- The TMC to receive further income streams through the connected market place,
- And for suppliers, giving them the ability to showcase their content the way they intended it to be displayed and booked.

This vision of a customer-centric model of corporate travel management is a world first and one we are steadily bringing to fruition. With the product-roadmap enhancements we have planned over the next few years, we are confident the evolution from the standard online booking tool to our new connected platform that powers all aspects of corporate travel will become the backbone of corporate travel around the world.

Our vision is to ensure that we place all the travel requirements of the traveller - from where they fly, stay, move, eat, work, play and rest - in one interface that is at their fingertips. We are now working on adding additional content to fill the needs beyond the traditional air, hotel and car bookings.

The Zeno Market Place, will allow customers to enable advanced features, information and additional content as they become available.

NDC is now becoming a big shift in our industry. NDC or New Distribution Capability is a new airline reservation system technology that permits Serko to have a direct connection into the airline's own inventory system rather than accessing it through intermediaries. This is important in terms of streamlining the booking process, ensuring the best fares are available at all times and those fares and associated benefits are presented and displayed as the airline intended. In FY19, Serko intends to be a leader of this technology change as a corporate travel booking tool and expense platform for the future of travel.

Serko and Zeno are being recognised for these leading technology advances. We have been named as one of the top corporate travel innovators for 2018 by Skift (a leading travel media company). We are also a finalist for Hi-Tech awards in the Company of the Year category, as well as the Most Innovative Hi-Tech Service category, due to be announced on 25 May.

Furthermore, we are also pleased to have been nominated as a finalist in the Air New Zealand Export NZ Awards 2018 category of Excellence in Innovation with awards to be announced on 28 June, and we were a finalist for the NZX Emerging Leaders Best Investor Relations Award at the INFINZ awards held on 17 May.

SLIDE 12 *(Growing our Customer Base)*

Moving on to Slide 12 and the initiatives to grow our customer base.

Zeno was offered to customers in beta form for the first time in October and we now have new corporates being added or transitioning almost daily with the current onboarding of Tandem customers. We have signed reseller agreements with a number of our Australasian travel management customers, to resell Zeno as they see the benefits to both retaining and winning new business through Zeno. We expect to continue to transition a significant number of bookings through the Zeno platform as these Travel Management Companies roll it out to their corporate customers.

As mentioned previously, Serko announced in February 2018, that it has signed a global agreement with ATPI Group (parent company to our current travel management customer - Voyager Travel). ATPI will commence rolling-out Zeno to their customers in the UK this quarter. ATPI have plans to follow this up with rollouts in Europe, North America and further in 2019.

We have significant other interest in the North American market following our appointment of US-based experienced travel leaders, Tony D'Astolfo (formerly with Deem) and Rich Miller (formerly with nuTravel) who are developing a pipeline of new customers and resellers in that region.

As mentioned earlier, we welcome Voyages Travel Encore as our first Canadian TMC.

Meanwhile, discussions are underway with additional Travel Management Companies in Australasia to add Zeno to the services they offer to corporates, including offering this as a global service.

We believe there is a significant gap in the global market for a product like Zeno. Over the current financial year, Serko will be defining and incorporating in-market content connections to further enhance our capabilities in the Northern Hemisphere markets.

We have restructured the business to define a dedicated Business Development team. That team is led by John Challis and combined with Rich and Tony in the US, and alongside Paul Turner leading expense, we anticipate further opportunities to expand globally during FY19. Bob Shaw, my fellow co-founder, is working on the global airline relationships and marketplace initiatives that will expand both the functionality and revenue to Serko.

With the appointment of Murray Warner (previously with Concur) as Head of Australasia, we look forward to ongoing growth from our home markets from both the Expense Management platform and our travel platforms.

Serko takes data privacy and cyber security risk seriously and has appointed Phil Ball, to the position of dedicated Security Officer. Serko maintains its software to be Payment Card Industry Standard compliant and has put in place processes to meet the European Union's General Data Protection Regulations (GDPR) standards which come into effect on 25 May 2018.

SLIDE 13 *(Growing Average Revenue per Booking- ARPB)*

Moving to Slide 13 and the third leg of our strategy, increasing Average Revenue Per Booking.

At the heart of our strategy to increase recurring revenues, is our premium offering, Zeno, and the introduction of additional content sources.

Over the last year, we have introduced accommodation content from Hotel Hub, HRS Global Solutions, and GTA (Gulliver's Travel Associates), following agreements with these organisations earlier in the year. We have also introduced virtual credit card payments to our customers in partnership with Conferma.

As announced earlier this year, we are also working with Air New Zealand to offer content such as seat and meal selections to all our customers. The agreement with Air New Zealand will also see our services offered directly to the airline's customers and is expected to go live in the 2019 financial year.

As the uptake of Serko's solutions increases, we are being sought out by travel-related suppliers to link their content into our eco-system. Zeno provides the basis to gather these services into one hub to make booking more convenient for the traveller.

We are currently working on incorporating rail transport for the UK and expect future services offered through Zeno to include additional rail transportation options and new sources of other ground transportation as well as other travel related content such as dining.

We are also driving uptake of our Serko Expense platform by incentivising the TMCs through revenue share arrangements and enhanced pricing to the corporate to combine their uptake of both travel and expense offerings, which is also generating additional revenue to Serko.

SLIDE 14 *Outlook*

I now turn to Slide 14. As you will see from our NZX release this morning, we have provided guidance that we expect Operating Revenue growth of between 15% and 30%.

Momentum continues to build in the business. February ATMR was $18.4 million, and we are working through a pipeline of customers currently onboarding to Zeno.

We are excited by the interest we have received in the Northern Hemisphere and we are preparing the business to maximise the return on this interest through into the next financial year. As we undertake this expansion in Europe and North America, we expect sales, marketing, system development and support operation costs to increase. As a result, we do not expect a substantial uplift in EBITDA.

The Board has a policy of maintaining a strong cash reserve position and will monitor Serko's capital requirements in light of the funding needed to execute growth opportunities both organic and inorganic.

As previously announced we intend undertaking a dual-listing on the ASX by way of a Foreign Exempt Listing. Subject to ASX approval, we expect to list on or around 25 June.

Further guidance will be provided at our Annual Shareholders Meeting in August.

SLIDE 15 *(Q&A)*

That completes our presentation and before I turn to Q&A as per slide 15, I draw your attention to our Appendix slides after slide 15 for further information.

l now hand back to the moderator to facilitate the Q&A.

[At the end of Q&A]

On a closing note, the Serko team is pleased to present these results on the back of a successful year for the company and we would like to take this opportunity to acknowledge the support of our shareholders. 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