

# FY18 INTERIM RESULTS SPEECH

Good morning and welcome to today's results presentation for the six-month period ending 30<sup>th</sup> September 2017.

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

We are extremely pleased with what we have achieved over the last six-months. We have delivered our promised positive profit in the half year. And at a level we had expected to achieve over the full year.

We have made a good start to the second half of the financial year as demand for our corporate travel and expense management solutions continues to grow and we look to expand into new territories. And importantly we remain confident of achieving a full-year profit this financial year.

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.

**SLIDE 3** (*Agenda*)

Please turn to Slide 3.

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 then cover the outlook for the second half.

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 – I'm going to cover off our key measures of financial performance and then go into more depth in the following slides.

The results tell a strong story for our first half. Net profit before tax was \$1.2 million, slightly ahead of the interim result guidance we gave on October 10<sup>th</sup> of \$1.0 million. This was due to minor amendments in classifications for non-operating finance income and foreign currency reserves between management accounts and presentation of results in the Interim Report. This result represents a \$3.2 million turnaround from the loss of \$2 million for the same period last year.

ATMR – which provides an indicator of future growth potential of Serko's recurring revenue – reached a peak during the six-month period at \$17.8 million in August.

We use the August figure because September is seasonally affected by the school holidays in Australia, when corporate travel volumes generally fall. I will cover ATMR more fully in the next slide.

Transactions across our travel platform grew 21% over the same period last year and contributed to a 30% increase in Total Operating Revenue to \$9.1 million.

Recurring revenues represented approximately 90% of Total Operating Revenue at \$8.0 million and were up 25% on the prior year's \$6.4 million.

Total income, including grants and other revenue sources, was \$9.6 million. Grant income for the period being the difference between Total Operating Revenue and Total Income.

R&D spend was \$2.4 million, down 24% from the prior year. The capitalised portion was minimal at \$0.2 million, with the majority expensed. R&D spend represented 26% of revenue for the period.

Operating costs also decreased 12% over the prior period. Much of the decrease in R&D and operating costs was due to the restructuring undertaken in 2016, including the decommissioning of the Arnold platform at the end of the first half last year. We are now benefiting from this lower cost base.

Along with accelerating revenues, which follows from an increase in our Average Revenue Per Booking and an increase in the number of bookings, we have turned the corner and have become profitable.

The performance of the business means we have capacity to reinvest earnings for future growth. Darrin will cover our plans later in the presentation.

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

Moving forward to slide 5.

The graph on the left shows transaction volumes. We do not provide actual booking volumes, but the strong upward trend is obvious. The graph also shows the seasonal nature of the business with second half booking volumes falling in each of the last two years, with the first year positive due to an acquisition of customers. This reflects the Dec/Jan holiday period in Australia and New Zealand, when corporate travel booking volumes fall.

In the half year to 30 September transaction volumes are up 21% on the same period a year ago and this has translated into growth in ATMR to \$17.8 million at August 2017.

For those who haven't heard us explain ATMR previously, the metric represents a calculation of transactions per month multiplied by Average Revenue Per Booking. This figure is then annualised and then adjusted to remove fluctuations from foreign exchange movements.

Many software-as-a-service, or SaaS-based companies, use a "ACMR" or Average Committed Monthly Revenue as an indication of business momentum.

As we are not a subscription-based SaaS model, we are unable to use the same definition of committed revenue. However, most of our revenue is recurring and transaction based and, therefore, we believe ATMR gives a good guide of momentum.

Our August 2017 ATMR of \$17.8m represents an increase of 16% over March 2017 figure of \$15.3 million and a 28% increase over August 2016.

The difference between online booking transaction growth of 21% and the 28% ATMR growth is due to the increase in Average Revenue Per Booking from new content (such as hotel accommodation or airport transfers) and a growing contribution from our Serko expense platform.

**SLIDE 6** (*Revenue Breakdown*)

The contribution of such content is illustrated by the table on the left of Slide 6. It provides a breakdown of Total Operating Revenue into its various sources: Serko Online; Serko Expense; Content Revenue, Other Revenue (which largely represents miscellaneous license revenue), and Services Revenue (non-recurring).

As you can see the 19% increase in revenue from Serko Online largely correlates with the 21% increase in transaction volumes.

Content revenue is now significant and meaningfully contributing to recurring revenues. It is now double what we achieved in the same period a year ago and nearly matches the income generated by our expense platform.

The attachment rate – or the share of bookings also generating revenue from additional content – has grown from 5% as at March 17 to 5.4% as at September 17 off a growing transaction base.

The growth in recurring sources from Serko Expense income, up 30% on the same period a year ago, reflects the success of our Travel Management Company (TMC) reseller programme introduced in prior years.

When services revenue from Serko Expense is combined with the 30% increase in Expense transaction revenue, total revenue from the Expense platform is up 43% from the same period a year ago.

Total Services revenue was up 81% over the prior period. 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.

Finally, in the current period, compared to the same period last year, currency impacts and minimum transaction commitments did not impact significantly on operating revenue and largely offset each other.

Moving to EBITDA, which gives a good indication of the cash-based profits available from operations.

In the half year to 30 September we generated EBITDA of \$1.3 million. Excluding non-cash share-based payments, EBITDA was \$1.4 million, which represents a turnaround of \$3.3 million on the same period a year ago.

Thanks to the strong growth in EBITDA, we achieved positive cash flows for the period. Our net cash position at the end of the period was \$4.6 million up from \$4.5 million as at the end of March 2017.

When R&D is excluded from EBITDA, as it is tied to the development of new products that will be commercialised in the future, the movement in profit is up nearly 400% and at \$3.3 million represents 36% of Total Operating Revenue.

In summary Serko has delivered a strong financial result. Strong improvements in revenue and careful management of costs has led to growth in earnings and positive cash flows.

I am now going to pass you back to Darrin to cover off our Strategic Outlook on Slide 7.

**SLIDE 7** (*Strategic Focus Recap*)

Thanks Susan.

As you are no doubt aware, Serko has a three-pronged strategy of growing our customer base, increasing Average Revenue Per Booking and delivering market-leading technological innovations to underpin our platform for global expansion.

Integral to the next phase of growth is Serko Zeno, our new premium service offered for the first time to customers in October.

We are offering Zeno alongside our existing platform Serko Online, with a number of leading-edge features. Combined with Serko's expense management solutions and serko.travel for small and medium businesses, we now have an integrated, globally-competitive offering suited to any sized organisation.

Our suite of solutions, coupled with strategic alliances to reach unserved markets and the expansion of content available on our platforms, will drive increases in average revenue per booking and total revenues.

I will now outline our achievements and growth plans against each of these key strategies.

**SLIDE 8** (*Innovating for the Future*)

I am now on Slide 8.

Our vision for the future is for customers to book all their business travel services - from how they get to their destination, to where they fly, stay, move, eat, work, play and rest - through one interface that is at their fingertips.

And we want our customers to be able to make these bookings easily and in compliance with their employers' travel management policies with a minimum of stress and a minimum of administration.

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 enhancements to our solutions we have planned over the next few years, we are confident the evolution from the standard online booking tool to new connection platform that powers all aspects of corporate travel will become the backbone of corporate travel around the world.

Zeno is the accumulation of several years of strategic investment.

Zeno was offered to customers for the first time in October and we now have a pipeline of more than 1,000 corporate customers to onboard. Meanwhile, discussions are well underway with many more Travel Management Companies to add Zeno to the services they offer to corporates.

With a pipeline of new content and additional functionality scheduled for the platform in the second half of the 2018 financial year, Zeno will be pivotal to Serko's continued growth in Australasia and provide a platform to launch into the Northern Hemisphere.

We have enabled a seamless transition between Zeno and Serko Online with a single user sign-on to both platforms. User profiles and company travel management policies are now available whatever platform our customers choose.

We have also completed a 'hub' within Zeno that allows customers to enable advanced features, information and additional content as they become available.

We have incorporated intelligent predictability from our mobile booking app into all our platforms so that users who regularly travel to the same place will be offered previous preferences first.

We continue to research and implement new ways to make travel booking more convenient. Our Ask Zeno service, for instance, 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 a mobile or desktop booking is.

Finally, we are developing duty of care functionality to ensure employers are easily able to discharge their health and safety obligations to their employees.

All of this development work is taking place in an environment of tight cost control.

**SLIDE 9** (*Growing our Customer Base*)

Moving on to Slide 9 and the initiatives to grow our customer base.

As outlined in our market update on 16 October, we have made our first hire in the US market. We have set up a new subsidiary, Serko Inc., for our US expansion plans.

We are already in discussion with our global travel management partners in the Australasian region to present Serko to their U.S. customers as an alternative to their current travel booking tools.

As announced on 20 November, we have now entered into a Memorandum of Understanding with ATPI Travel Group to agree contractual terms which will facilitate the distribution of Zeno into the Northern Hemisphere and wider. We anticipate that a binding agreement will be reached over the next couple of months.

We believe there is a significant gap in the U.S. market for a product like Zeno. Over the second half of the current financial year, Serko will be defining and developing local content connections to further enhance our capabilities in the U.S. market.

As Susan has already noted we continue to experience growth in our home base of Australasia.

While the onboarding of previously announced Sabre customers to Serko has not occurred as quickly as anticipated (due to the end users' delays to transition to Sabre's new online platform, Sabre Powered By Serko), Serko's revenue has been protected by minimum revenue commitments.

However, we expect a significant amount of this volume to onboard in the second half of the current financial year.

Customers of Air New Zealand's travel management company, Tandem, who were formerly on Sabre, are now due to transition directly onto Serko Zeno in line with our agreement with Air New Zealand. All other Sabre customers will eventually transition to Sabre's new platform as the old platform will no longer be supported by Sabre.

The transition of these customers will underpin growth in transaction volumes for the remainder of the current financial year and into the 2019 financial year.

**SLIDE 10** (*Growing Average Revenue per Booking- ARPB*)

Moving to Slide 10 and the third leg of our strategy, increasing Average Revenue Per Booking.

At the heart of our strategy to increase recurring revenues is a drive to generate alternative sources of income to transaction fees. We are achieving this by continuing to add content to our travel offering.

Over the last six months, we have introduced accommodation content from Hotel Hub. We are now working to introduce similar content from HRS Global Solutions and GTA (Gulliver's Travel Associates), following agreements with these organisations earlier in the year. HRS is now live, while GTA content will be under development in the second half.

We are working to introduce virtual credit card payments to our customers in partnership with Conferma, as this functionality is also now available.

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 into our eco-system. Our new platform Zeno provides the basis to gather these services into one hub to make booking more convenient for the traveller.

We expect future services offered through Zeno to include more ground transportation options such as rail and other travel related content such as dining.

Such options will continue to be added and will add to returns expected in the 2019 financial year. We expect this content to deliver a higher margin for Serko than we achieve through vanilla airline bookings and thus increase our ARPB.

**SLIDE 11** *Outlook: On Track for Full Year Profit*

I now turn to Slide 11. As you will see from our NZX release this morning, we have reiterated the guidance we gave in early October.

Momentum continues to build in the business. October ATMR was \$17.8 million and matched August peak despite less business days and NZ school holidays. We are now transacting double the volume of bookings we achieved in the same month in 2015, 2 years ago.

As mentioned earlier, Serko's second half is subject to the seasonal slow-down in Australasian corporate travel in December and January.

Nevertheless, we expect total operating revenue for the second half to be 25-30% higher than the same period prior year and therefore we expect total operating revenue for the year to 31 March 2018 to be in the range of \$18 to \$19 million.

We expect EBITDA, net profit before tax and cash flow to be break even for the second half of the financial year as we invest the proceeds of revenue

growth in the expansion into new territories. Thus we expect EBITDA to remain at approximately \$1.3 million for the full year.

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. We aim to match our cost base with guaranteed minimum revenue deals with prospective TMC partners in the Northern Hemisphere and we are comfortable that we have sufficient capital to execute our current growth plans.

**SLIDE 12 (Q&A)**

That completes our presentation and before I turn to Q&A as per slide 12, I draw your attention to our Appendix slides after slide 12 for further information.

I 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.

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