



## Market Release

22 November 2017

### FINANCIAL RESULTS FOR HALF YEAR ENDED 30 SEPTEMBER 2017

#### **Serko achieves maiden profit and cash flow positive for the period**

Revenue growth of 30%, Annualised Transactional Monthly Revenue increases to \$17.8 million

Six monthly profit before tax of \$1.2 million compared to a loss of (\$2.0) million last year

Highlights from the unaudited six-month period include:

- Total Operating Revenue<sup>1</sup> for the period ended 30 September 2017 at \$9.1 million is up 30% over the previous corresponding six-month period of \$7.0 million.
- Serko Online transaction volumes increased by 21% over the same period last year.
- ATMR<sup>2</sup> reached a peak of \$17.8 million during the period.
- Total Income<sup>1</sup> from all sources including grants was \$9.6 million for the period.
- Net profit before tax for the period was \$1.2 million (a \$3.2 million turnaround over the previous corresponding period loss of \$2.0 million).
- EBITDA<sup>3</sup> profit for the period was \$1.3 million (a \$3.1 million turnaround over the previous corresponding period loss of \$1.8 million).
- Cash on hand as at 30 September 2017 was \$4.6m, up from \$4.5m at 31 March 2017.
- Serko expects full-year operating revenue of \$18 million - \$19 million.
- Full-year EBITDA of \$1.3 million is expected, due to an anticipated break-even performance in the second half as a result of seasonal effects and the pursuit of expansion opportunities.

Serko Limited (NZX:SKO), a leader in online travel booking and expense management for business, today announces a maiden first half net profit before tax (NPBT) of \$1.2 million up from a loss of \$2 million in the same period a year ago as it benefits from growing usage of its suite of corporate travel and expense management solutions. It also announces it remains on track to deliver its first full-year profit as a listed company.

Serko Chairman Simon Botherway said: “The onboarding of new customers to our suite of corporate travel and expense management solutions; increased usage of the solutions by our existing customers; and the growing contribution to revenue of travel-related content, such as hotels and airport transfers, resulted in strong growth in the half-year.

“We have also controlled costs and generated positive cash flows, while continuing to invest in the further development of our solutions, including Serko Zen0 - our new premium solution we are offering alongside Serko Online that was rolled out to our first customers in October.

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<sup>1</sup> Total Operating Revenue is revenue excluding income from grants and finance income, while Total Income includes grants.

<sup>2</sup> ATMR is a non-GAAP measure representing Annualised Transactional Monthly Revenue. Serko uses this as a useful indicator of recurring revenue from Serko products, based on the monthly transactions and average revenue per booking, on a constant currency basis. Due to seasonality Serko uses the latest month which is not affected by a seasonality trend. For the current period, September 2017 is affected by Australian school holidays and as such the calculation is based on August 2017 transactions.

<sup>3</sup> EBITDA is a non-GAAP measure representing Earnings or Losses before Interest (net Finance income/cost), Tax, Depreciation, Amortisation and Impairments. Serko uses this as a useful measure for an estimate of operating profits excluding non-cash expenses.

“It has been a gratifying six-month period. Serko is well on its way to recording its first full-year profit and we are now looking forward to making progress on the next phase of our growth plans, to expand our presence in the Northern Hemisphere markets.”

### Financial highlights

Total Operating Revenue<sup>1</sup> rose 30% to \$9.1 million, reflecting the 21% increase in transacted booking volumes (which translated into a 19% increase in transactional fee revenue) in the half-year period. It also reflected strong growth in income from Serko Expense, content supplier commissions (both through Serko Online and serko.travel) and Serko Mobile licenses. These latter sources of revenue contributed 29% to Total Operating Revenue.

Serko Chief Executive Darrin Grafton said: “Approximately 90% of revenue in the period was derived from recurring revenue sources, with the remainder derived mainly from system customisation work. Annualised Transactional Monthly Revenue (ATMR<sup>2</sup>), an *indicator* of the company’s recurring revenues, stood at \$17.8 million at the end of September 2017, up from \$15.3 million as at the end of March 2017. We are very pleased with Serko’s progress and performance.”

Half-year Total Income<sup>1</sup> rose 26% to \$9.6 million, which was a \$2 million increase over the prior half-year result of \$7.6 million. Relative to last year, operating revenue also benefited from the hedging of the company’s net forecast Australian dollar position at approximately NZ\$0.93. The prior half-year result was affected by unfavourable foreign-currency shifts.

A company-wide focus on achieving best-practice in terms of the cost base and realising operating efficiencies, resulted in operating costs declining by 12%, while investment spending on intangibles such as software development and purchases of property, plant and equipment was lower at \$0.2 million compared to the same period last year of \$0.8 million.

Coupled with revenue growth, these savings resulted in a first half EBITDA<sup>3</sup> of \$1.3 million, a turnaround of \$3.1 million from the EBITDA loss of \$1.8 million in the same period last year.

First half NPBT for the six months to 30 September 2017 was \$1.2 million, well ahead of the \$2 million loss in the same period last year and slightly ahead of the guidance given in October.

“Serko remains in a sound financial position with cash balances of \$4.6 million, up from \$4.5 million at 31 March 2017. In the same period last year net cash balances fell by \$2.4 million,” Mr Grafton said.

“Serko’s three-pronged strategy of delivering market-leading technological innovations, growing its customer base and increasing average revenue per booking (ARPB), continues to deliver favourable financial outcomes for the company. On all three fronts Serko has made good progress, which has further enhanced the company’s position as the leading online business travel booking platform in the Australasian market.”

Key strategic achievements for the period include:

- The development and release of Zeno, a premium and predictive door-to-door booking platform that will allow Serko to continue to grow its customer base and give customers the opportunity to add additional content to their travel programmes via the Zeno hub. Zeno will extend Serko’s content revenue sources. We are pleased with the results from Zeno customer trials and we expect further uptake as commercial arrangements are finalised with our partner Travel Management Company (TMC) resellers. Already, we anticipate more than 1,000 corporate customers will transition to the platform. Zeno will spearhead our Northern Hemisphere entry strategy. It is engineered to integrate additional content sources from multiple providers and is therefore adaptable to new geographies.
- The continued onboarding of new customers, resulting in a 21% increase in online booking transactions over the same period last year. Transactions are expected to continue to increase with a number of planned transitions onto the Serko platform in the second half, through agreements with Sabre and Tandem (Air New Zealand’s TMC). These agreements are underpinned by minimum transaction commitments.
- A 43% increase in revenue generated by Serko Expense, our expense management solution, compared to the previous corresponding period, as a result of the successful reseller programme introduced in the prior year with our partner TMC.
- A 100% increase in content revenue growth over the same period last year with 5.4% of all bookings as of September 2017 now generating additional content revenues. Serko continues to add content to its platform and recently completed the development work for accommodation providers Hotel Hub and HRS Global Hotel Solutions. We also

recently announced a partnership with Gullivers Travel Associates (GTA) to provide further hotel content. This content combined with that from Expedia, Booking.com, Wotif and Expedia Affiliate Network makes Serko one of the world's largest metasearch engines for business travel accommodation.

- The partnership with Air New Zealand to bring the airline's unique content to the Zeno platform, allowing customers to book through Serko previously unavailable content, such as meal and seat selection.

## OUTLOOK

While the second half is typically not as strong as the first due to the slowdown in corporate travel during the Australasian December-to-January holiday period, Serko is expecting revenues to continue to grow through the onboarding of customers and commencement of revenues from Zeno. Minimum transaction agreements, notably with Sabre and Tandem, will also underpin revenue growth.

As disclosed in October, Serko expects Total Operating Revenue for the second half of the 2018 financial year to be 25% to 30% higher than the same period a year ago. As a result, we expect Total Operating Revenue for the year to 31 March 2018 to be in the range of \$18 million to \$19 million.

However, Serko is investing more during the second half as we begin our expansion into Northern Hemisphere territories. We expect that our cost base will increase correspondingly. 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.

Serko remains committed to achieving EBITDA, NPBT and cash flow breakeven during the second half, while expansion opportunities are pursued.

"Serko is looking forward confidently to the next phase of our growth plan. The company now provides an integrated, globally competitive offering through the provision of Serko Zeno, alongside Serko Online, Serko Expense as well as serko.travel for small and medium enterprises," Mr Botherway said.

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### Non-GAAP financial information

Non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The information has not been audited.

The measures reported by Serko are used by management to monitor the performance of the company and are useful to investors to assess performance. Non-GAAP measures are defined and explained by footnote where used in this release.