



Market Release

20 November 2018

UNAUDITED FINANCIAL RESULTS FOR THE HALF YEAR ENDED 30 SEPTEMBER 2018

Serko establishes footholds in new markets as growth continues

Online travel and expense management leader remains profitable as it continues to expand its market share in Australia and New Zealand and invests in core infrastructure and system features to support growth locally and in the Northern Hemisphere

Highlights from the unaudited six-month period include:

- Total Operating Revenue¹ for the period ended 30 September 2018 at \$11.4 million is up 25% over the previous corresponding six-month period of \$9.1 million.
- Travel booking platform transaction volumes increased by 21% over the same period last year.
- ATMR² reached a peak of \$19.4 million during the period.
- Total Income¹ from all sources, including grants, was \$11.8 million for the period.
- Net profit before tax (NPBT) for the period was \$1 million. Prior year period was \$1.2 million.
- EBITDA³ profit for the period was \$1.5 million. Prior year period was \$1.3 million.
- Cash on hand as at 30 September 2018 was \$19 million, up from \$5.2 million at 31 March 2018 and included \$14.3 million (net of issue costs) from the August 2018 capital raise.
- Dual-listing on the ASX by way of a Foreign Exempt Listing.

Serko Limited (NZX/ASX:SKO), a leader in online travel booking and expense management for business, today announced the results for the half year to 30 September 2018. Serko's revenues continued to grow in its home markets of Australia and New Zealand and good progress was made in establishing its presence in the Northern Hemisphere, while remaining profitable.

Transactional volumes across Serko's travel platforms were up 21% on the same period a year ago. Operating Revenue grew 25% over the previous corresponding period. This is within the guidance range of 20-30% provided for the full year in August 2018. Net profit before tax (NPBT) was \$1 million and EBITDA³ was \$1.5 million, largely in-line with the prior year and consistent with guidance.

Serko Chairman Simon Botherway said: "We made pleasing progress in the half year and we continue to be the leading online business travel booking platform in the Australasian market. We experienced increased transaction volumes from existing and new customers, additional revenue from travel-related content, such as hotel bookings and airport transfers, as well as strong growth in our Expense platform revenue.

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

² 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 2018 is affected by Australian holidays and as such the calculation is based on August 2018 transactions.

³ 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.

“We maintained profitability and we have made significant investment in platform development including Zeno, our premium platform that is spearheading entry into new Northern Hemisphere markets.”

“It has been a gratifying six-month period. Agreements have been entered into with approximately two thirds of our Australasian Travel Management Company (TMC) partners (as measured by transactional volume) to enable them to offer Zeno to their corporate customers.”

“We have also made significant progress on the next phase of our growth plans, to expand our presence in the Northern Hemisphere markets. Zeno was successfully trialled in the UK from May 2018 in conjunction with our global TMC partner, ATPi, and one of its corporate customers. ATPi is now expanding the offer to other UK corporates. We expect to commence transactions in continental Europe and North America in the second half. Demand has exceeded our capacity. In order to support this growth, we have expanded our team with both permanent and contract resource. We will increase our level of investment into new features for the Northern Hemisphere and the integration of new content, while also improving core platform resilience.”

“We are being noticed by the global travel management industry. In October 2018 we were recognised at the BTN (Business Travel Network) Group Innovate conference, as the Peoples’ Choice Business Travel Innovator. Meanwhile, in New Zealand, Serko was awarded excellence in innovation at the New Zealand Business Awards held in November 2018 by New Zealand Trade and Enterprise.”

“Finally, we broadened our reach into Australasian capital markets with a capital raising and ASX listing in the middle of this year. It has been a gratifying six-month period.”

Financial highlights

Total Operating Revenue¹ in the half-year period rose 25% to \$11.4 million, reflecting the 21% increase in transacted booking volumes (which translated into an 18% increase in transactional fee revenue). It also reflected strong growth in income from Expense platform transactions and content supplier commissions. These latter sources of revenue, plus other revenue, contributed 17% of Total Operating Revenue. Average Revenue per Booking (ARPB) earned from travel platform associated revenue, including supplier commissions, remained steady against the prior year.

Serko Chief Executive Darrin Grafton said: “Approximately 85% of revenue in the period was derived from core product sources, with the remainder derived mainly from system customisation work. We are seeing increased demand for customised versions of our core technology and we expect this to translate into revenue growth in the future.”

“Annualised Transactional Monthly Revenue (ATMR²), an *indicator* of the company’s recurring revenues, was a peak of \$19.4 million for the period, up from \$18.4 million at the end of March 2018. We are very pleased with Serko’s progress and performance.”

Half-year Total Income¹ rose 23% to \$11.8 million, which was a \$2.2 million increase over the prior half-year result of \$9.6 million.

First half EBITDA³ of \$1.5 million remained comparable to the prior period of \$1.3 million, consistent with guidance. NPBT for the six-month period of \$1 million, was down slightly against the prior period of \$1.2 million, with the fall primarily related to currency fluctuations.

“Serko remains in a sound financial position with cash balances of \$19 million, up from \$5.2 million at 31 March 2018. Serko raised additional capital in August 2018 to accelerate growth opportunities. Cash balances include \$14.3 million (net of issue costs) from the capital raise.”

“Serko had positive \$1.6 million cash flow from operations. Investment in our product, Research and Development (R&D), increased to \$3.8 million from \$2.4 million in the same period a year ago. Around \$1.9 million of product investment in the current year was capitalised,” Mr Grafton said.

Strategic Achievements

“Serko’s three-pronged strategy of delivering market-leading technological innovations, growing its customer base both within its home markets and new markets, and increasing average revenue per booking (ARPB) continues to deliver strong financial outcomes for the Company. Serko has made significant advances towards achieving its strategic objectives.”

Key strategic achievements for the period include:

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- The continued onboarding of new customers, resulting in a 21% increase in online booking transactions over the previous corresponding period. This increase primarily relates to Serko's home markets of Australia and New Zealand as expansion into the Northern Hemisphere is still in the early stage of development.

"We expect to continue to grow our share in our home markets, although potentially not as quickly as we have seen in the first half of the financial year. This growth, although moderated by the holiday business travel slowdown, will be assisted by the on-boarding of Orbit Travel Group, which signed in July 2018 and will begin to transition onto Zeno during the second half of this financial year," Mr Grafton said.

- The commencement of expansion into the Northern Hemisphere. Serko's TMC partner ATPi successfully completed a customer trial in the UK and is expected to roll Zeno out to other customers in the second half. Investment in development requirements to expand the rollout to other European countries has commenced with the integration of new travel content to the platform.
- Zeno agreements have been signed with North American TMCs and discussions are underway with additional TMCs after a successful launch of Zeno at the Global Business Travel Association conference held in the US in August 2018. We expect to close additional reseller agreements with customer trials to begin in the second half following completion of content integration and system optimisation work, with revenue to follow in future financial years.
- In Australasia, we have signed reseller distribution agreements for the new Zeno platform with TMCs representing approximately two thirds of Serko's customers, based on current volume. More than 350 corporates are now using Zeno, including some large customers transacting at a rate of over 1,000 bookings per month. Flight Centre launched Savi, a customised travel booking platform based on Zeno in September 2018. It is trialling the service with some existing customers and expects to roll it out to new customers in the last quarter of this financial year.
- Services revenue, primarily system customisation, expanded by 68% over the prior period. The increased service level activity is due to customers specifying specialist features that are expected to contribute to increased transactions in the future and ultimately improve ARPB. New contractual arrangements now include an element of committed development spend so Services revenue is likely to persist at this elevated level in future.
- Revenue from Serko Expense, our expense management solution, grew by 31% compared to the previous corresponding period.
- Content revenues (commissions on third party services such as transfers and hotel bookings) grew by 24% compared to the previous corresponding period with over 6% of all bookings generating additional content revenues, up from 5.4% at the same time a year ago.
- We continue to innovate. We are partnering with airlines, including Qantas, to bring New Distribution Capability (NDC) booking functionality to the Zeno travel platform. NDC will allow customers to book previously unavailable content, such as meal and seat selection, as well as access other information and services not yet provided through other integrations.

OUTLOOK

Serko Chairman Mr Botherway said: "Serko retains its guidance within the range of 20-30% Operating Revenue growth for the full financial year ending 31 March 2019. Currency fluctuations and the timing of customer onboarding will be key factors determining the final result as usual.

"We will accelerate investment in system development during the second half to provide local content, additional functionality and to ensure we have the infrastructure to support global growth. We expect that the benefits of this investment will be apparent in the 2020 financial year. We anticipate that the majority of these costs will be capitalised, resulting in our EBITDA remaining consistent with the prior period."

"Serko is looking forward confidently to the next phase of our growth plan as we take Serko's Zeno to the world," Mr Botherway said.

We also continue to assess acquisition opportunities to support our growth objectives.

ENDS

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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.