



Market Release

23 May 2017

FINANCIAL RESULTS FOR THE YEAR ENDING 31 MARCH 2017

Serko on track to generate annual profit as recurring revenues grow

Cloud-based corporate travel and expense management solution provider's online transaction volumes rose 18% in the 2017 financial year. Cash reserves of \$4.5 million ahead of guidance and sufficient to fund our growth plans. Serko is currently generating positive monthly EBITDA¹.

Highlights:

- Annual net loss before tax narrows 44% to \$3.3 million, while total revenue (excluding grants) rises 9% to \$14.3 million.
- FY17 EBITDA loss narrows 53% to \$2.5 million.
- EBITDA loss for 2H 2017 was \$0.7 million compared to 1H of \$1.8 million.
- Annual recurring product revenue (Travel and Expense) rose 9% to \$12.9 million and represents 91% of total revenue.
- Online transaction growth of 18% compared to the previous year.
- Approximately 50% of corporate travel bookings in Australasia were booked on the Serko platform.
- Annualised Transactional Monthly Revenue (ATMR)² for March 2017 was \$15.3 million, a 37% uplift on the same month a year ago.
- Research and Development³ investment for the year was \$5.8 million against \$6.3 million for the previous year.

Serko (NZX:SKO) today announces it is on-track to generate profit⁴ for the current financial year as it consolidates its position as the Australasian market leader in corporate travel and expense management solutions and readies itself for expansion.

Serko also announces its financial results for the year to 31 March 2017, which show continued growth in revenues, sharply narrowing losses in the second half and ongoing investment in the development of the company's travel and expense management platforms.

Chairman Simon Botherway said: "Serko, which this year celebrates its ten-year anniversary, has made strong progress over the last financial year. With more than 50% of all corporate travel in Australasia now booked through the Serko enterprise platform, we are clearly the leading solution in our home market.

"Transactional travel revenue grew at 8% for the year and lagged transaction growth (18%) due to a higher level of minimum contractual payments recorded in the 2016 year and adverse currency impacts in the 2017 year. Minimum contractual payments are received when a customer's actual transactions fall short of their contracted minimum. However, in looking forward it is important to understand that transaction volumes grew strongly, particularly in the second half. Due to this acceleration in the second half, the overall transactional growth of 18% during the year masks the run-forward growth rate. A comparison of March 2016 transactional revenues with March 2017 shows an uplift of 37%, which is attributable to both an increase in the number of transactions and the Average Revenue per Booking. The current pipeline of new customers expected to join Serko's platform gives us confidence we will achieve positive profit in the current financial year and cash flow break even for the full year."

¹ EBITDA is a non-GAAP measure representing Earnings before Interest, Tax, Depreciation and Amortisation. It is reconciled to the GAAP measure of Net Profit before tax on page 2 of this release.

² ATMR is a non-GAAP measure representing Annualised Transactional Monthly Revenue which is calculated using the most recent monthly transaction numbers multiplied by Average Revenue per Booking (ARPB) and then annualized, which we consider to be a useful indicator of recurring revenues from Serko products on projected annualised basis

³ Research & Development cost is a non-GAAP measure representing the internal and external costs related to R&D

⁴ Profit is defined as Net Profit before Tax (NPBT) and is a GAAP measure

“We are also in a sound financial position. In the second half of the 2017 financial year, net cash outflows were just \$0.3 million, sharply lower than the \$2.3 million outflow in the first half as the Company benefited from growing revenues as well as cost synergies achieved from the integration of the Arnold booking platform. At the end of the financial year we had \$4.5 million of cash on-hand. This figure is ahead of the \$3-\$4 million that we advised as our target on the 23rd of November 2016. We expect our cash balance to fall below \$4 million following the payment of employee performance incentives and annual prepayments due in 1H, however we have sufficient cash to fund both our current level of activity and anticipated growth.”

“Contrast this result with the company's performance just 6 years ago. Today we process the same volume of transactions per month as we did for the total 2011 year. It is clear we have come a long way and the team is justified in being proud of their achievements.”

FINANCIAL RESULTS

Total revenue for the year to 31 March 2017 rose 9% to \$14.3 million from \$13.1 million in the prior year, including \$12.9 million from the Serko Online and Serko Expense platforms, as well as service revenue from customised development work.

Total income, which includes research and development grants, rose 7% to \$15.4 million from \$14.4 million in 2016. Revenue growth in the current financial year was adversely impacted by the strength of the New Zealand dollar against the Australian dollar as Serko's contracts are predominantly in Australian dollars.

Annualised Transactional Monthly Revenue (ATMR) for March 2017, an indicator of recurring revenues from the Serko products projected on an annual basis, stood at \$15.3 million, a 37% improvement on the \$11.2 million for the same month a year ago.

Transaction volumes on the Serko Online platforms grew 18%. This growth rate was lower than the prior year, however the growth rate in the 2016 year was boosted by a near full-year contribution from the May 2015 acquisition of the Arnold Travel Technology platform. There were no acquisitions in the 2017 financial year.

Serko's annual net loss before tax narrowed by 44% to \$3.3 million from \$5.4 million in the prior year. EBITDA losses narrowed by 53% to \$2.5 million from \$5.4 million in the prior year. This was due to increased transaction volumes, careful management of operating expenses and the benefits achieved by integrating the Arnold platform. Overall expenses declined by 10% to \$18.8 million from \$20.7 million a year earlier.

	Years ended 31 March		
	FY17 NZ\$m	FY16 NZ\$m	Net increase/ (decrease)
Revenue:			
Serko Online	11.80	10.92	8%
Serko Expense Management	1.12	0.98	14%
Core Product Revenue	12.92	11.90	9%
<i>% Total Revenue (excluding Grants)</i>	<i>91%</i>	<i>91%</i>	
Services Revenue	1.36	1.22	11%
Total Revenue	14.28	13.12	9%
Other Income	1.09	1.30	(16%)
Total Income	15.37	14.42	7%
Operating Expenses (including D&A)	(18.76)	(20.73)	(10%)
Net Finance Income (cost)	0.08	0.37	
Net profit / (loss) before tax	(3.31)	(5.94)	(44)%

Interest, Depreciation and Amortisation (D&A)	0.78	0.58	
EBITDA¹	(2.53)	(5.36)	(53)%
Net Cash Held	4.45	7.12	
Employees (number)	108	127	

2017 PERFORMANCE DRIVERS

Chief Executive Officer Darrin Grafton said: “Our purpose remains to transform the way businesses manage travel and expenses, enabling stress-free travel so team members can always be at their most productive, and delivering tangible benefits to the organisations that use the Serko line of products.”

“Over the last twelve months, we have concentrated on a three-pronged strategy towards this goal of: growing our customer base; increasing average revenue per booking (ARPB); and delivering market-leading technological innovations to underpin our platform for global expansion.”

“We have made good progress on all three fronts. With our Australasian corporate travel business now firmly established, we are looking to drive uptake on the small business platform, serko.travel, and expand into new markets through strategic partnerships.”

Partnerships

Travel Management Company (TMC) on-boarding of new corporate customers was a key driver of Serko’s growth and contributed to the increase in transaction volume for Serko Online and increase in corporate customers using Serko Expense. This growth is expected to continue into FY18 with a strong pipeline of new customers expected to join Serko’s platform.

We signed an agreement with Sabre Corporation, North America’s largest provider of global airline bookings, to replace its proprietary online booking tool (Sabre Online) with a new tool based on Serko Online. Sabre is now in the process of transferring its customers to Sabre Powered by Serko. Serko also signed agreements with the Helloworld and Magellan Travel Group TMCs. These agreements have extended Serko Online to a potential 50+ new TMCs.

We have initiated an incentive program for our TMC resellers to activate expense across our 6,000 travel customers in a drive to increase awareness and sales of the expense management platform. This move has started to increase revenue, with sales in this product-line increasing 14% over the prior year. In addition, Serko is winning expense work as customers increasingly look for combined expense and travel platforms. The integration of the travel and expense platforms on our mobile app has enhanced our ability to meet this demand.

New content

We successfully introduced new content providers such as Expedia, Wotif and Booking.com to our platform. The initiative has been well received by our TMC customers and is contributing a growing revenue stream as Serko takes a share of content sales commissions. While it is early days, around 5% of bookings through our platform are buying services from these content providers. Commissions on this new content grew over 900% and is on-track to contribute significantly to Serko’s FY18 results. Serko has signed with new content providers Hotel Hub and HRS and their content will be available in FY18.

serko.travel

In July 2016, we launched our platform for small and medium enterprises (SME), serko.travel. It offers companies with less than 150 employees a way to book and manage their company travel online and benefit from many of the enterprise platform’s cost control, approval and reporting features.

Serko.travel is a self-service system that uses the Serko Online technology platform, offering users further opportunities to reduce corporate travel management overheads. It also offers customers the services of the Helloworld and Fight Centre

TMCs if needed on a pay-per-use basis. Users incur no initial booking fee. Instead, Serko generates revenue from the sharing of commissions. The system also integrates with Xero to streamline the process of reconciling travel-related expenses.

Serko is continuing to broaden its user-base for this platform via white-labelling arrangements. Helloworld and Flight Centre will launch their own white-label versions of serko.travel to support their SME businesses during 2017. We intend to further grow uptake of the platform by sharing revenue with partners that have strong relationships with other large numbers of SMEs. We have already signed agreements with Xero and 2degrees, and we are in discussion with other parties. Through these partnerships, the serko.travel platform will also be rolled out to customer bases in Hong Kong and Singapore.

Platform development

Serko's leadership in travel and expense management is dependent on the continued development of its platforms. We were delighted this year by Callaghan Innovation's decision in March 2017 to extend its research and development grant by \$2 million over the next two years. In addition to the launch of serko.travel, key product developments in the year included:

- **Serko Mobile:** We launched a predictive booking workflow for Serko Mobile in September 2016. This feature puts the power of our predictive software booking technology into the hands of the travellers themselves. This new feature is assisting our channel partners to target new accounts.
- **Serko Expense:** In December 2016, one of the highlights for Serko Expense was the launch of the upgraded Serko Mobile app, allowing users to submit expenses directly from their phones. In an industry first, this gives business travellers end-to-end control of their trips via a single app, from booking and managing travel itineraries, right through to submission of associated expenses.
- **Serko Zeno:** Zeno is our new corporate travel booking and expense management platform and incorporates a number of leading-edge features. The demonstration of Zeno to some of our key accounts has been well received. It is currently being tested and we expect to launch later in the current financial year. It will be offered as a premium solution alongside the existing Serko Online product.

Outlook

"Serko is in a strong position and is looking to the remainder of the current financial year and beyond with confidence. Transactional revenue is expected to grow with our TMC partners seeing a strong pipeline of new customers they expect will begin using Serko Online and Serko Expense in the current financial year", Grafton said.

"We also expect to see continued growth in content revenue through our various platforms. We expect that content revenue growth will accelerate as additional content providers are added to the platform, including taxis, transfers and rental cars as well as other providers of hotel bookings. We expect Serko Zeno to begin to contribute to revenue later in the current financial year and into the 2019 financial year as we launch into new markets in association with our partners such as Sabre."

"Serko will continue to invest in its platforms to expand its product use globally. And, through careful management of our costs, and our financial and capital position, we expect to achieve sustainable cash flow for the current financial year and record positive earnings for the full-year."

Serko will provide an update on performance and progress for the FY18 year at the Annual Shareholder Meeting to be held on 23 August 2017.

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About Serko

Serko is Australasia's leading online travel booking and expense management company for businesses and is listed on the New Zealand Stock Exchange Main Board (NZX:SKO). Headquartered in Auckland, New Zealand and with offices in Sydney Australia, Xi'an City China and Gurgaon India.

Serko Online is an integrated Online Booking Tool (OBT) used by administrators and travellers to book flights, accommodation and car hire from the broadest possible set of travel providers. The OBT ensures that travel bookings comply with corporate travel management policy without limiting the user's choice of travel provider.

Serko's product portfolio also includes Serko Expense, Serko Mobile and serko.travel.

Visit www.serko.com for more information

Note:

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 non-GAAP financial information included in this release has not been subject to review by the auditors. Non-GAAP measures are used by management to monitor the business and are useful to provide investors to access business performance