Serko Limited Annual Meeting 2016
Chairman's Address

23 August 2016

Let me start by briefly reviewing Serko's activities and progress over the 12 months ending March 2016. I will subsequently comment on current trading patterns.

FY16 Performance

Serko's trading revenue increased by 27% to $13.1 million for the year and booking transactions rose by 54%. This growth was augmented by the acquisition of the Arnold business from Expedia. We subsequently made the decision to decommission Arnold and this is expected to be complete by the end of September which will result in cost savings – more on this in the trading update.

Although the revenue growth rate was not as strong as the prior year, the revenue composition was more heavily weighted toward the more valuable recurring transactional revenue at 93% of total revenue compared to 80% the previous year. This was attributable to a decline in Client Work Orders or Billable Services for system customization.

Our EBITDA loss of $5.36 million was a modest improvement over the prior year's EBITDA loss of $5.55 million. Our EBITDA loss continues to reduce as we pursue a path to profitability.

We continued to invest heavily in Research and Development and Capex and we were assisted by grants from Callaghan Innovation. R&D investment was $6.3 million compared to $5.8 million in the prior year and is expected to result in revenue growth in years to come.

A key strategic initiative we outlined last year was delivered as a result of this significant development spend. We launched our Integrated SME travel booking solution called serko.travel, in association with our partner Xero and our TMC partners Flight Centre and HelloWorld. We will demonstrate this technology to you following the conclusion of the formal part of this meeting. Serko.Travel went live at the end of July, somewhat later than we had originally expected. This reflected the considerable complexity of the product and the requirement for integration with multiple external systems.

We have also continued to develop a new User Interface for our Serko Online product which is anticipated to be released later this year; and we have invested in the introduction of additional content sources for our clients.

Strategic Focus

Last year we outlined the following strategic objectives:

- Grow market share,
- Increase the overall average revenue per booking; and
- Retain our innovative and competitive edge.

These objectives continue to be our focus for FY17 and Darrin will speak to how we are executing on these strategies in his presentation later in the meeting.

I'm very pleased to announce, that after a period of negotiation, we have today secured a deal with NASDAQ-listed Global Distribution System (GDS) company, Sabre Corporation. Sabre has a market capitalisation of approximately $7.5 billion and over $3 billion of annualised revenue. This is one of the largest and most important deals we've done to date. It provides us with minimum annual revenue of NZ$1 million per annum and will start contributing to Serko's revenue in the second half of FY17. Darrin will provide more detail on this deal shortly.

Trading Update

In terms of current trading trends:

- Serko maintains our previous guidance to achieve monthly break even and positive cash flow by the end of FY17:
    - At 31 July 2016, cash reserves amounted to $5.8m compared to $7.1m at 31 March 2016.
    - The company is targeting a net cash balance of between $3.0m and $4.0m at 31 March 2017 and to be cash positive thereafter.
    - The company is proactively managing its cash-burn to achieve the targeted cash position.
- Revenue performance in the first quarter of FY17 was 9% higher than the corresponding period in FY16 for product and recurring revenues and 7% in aggregate including ad-hoc software services revenue.

- The growth rate was influenced by the loss of some Arnold accounts which were either not suited to the Enterprise-level Serko Online product or elected not to migrate to Serko Online during the decommissioning of the Arnold platform. While the loss of any account is disappointing, we had anticipated a degree of attrition in our planning process this year.
- Net online transaction growth was 18%, however, comparability with the first quarter last year is affected by the acquisition of Arnold in Q1 2016 on the one hand and some attrition in Arnold customers in Q1 2017; and one-off impacts from volume-related pricing affecting the two comparative periods. We don't anticipate either of these impacts to affect future periods.
- Currency fluctuations also impacted revenue in Q1 2017.
- Software services revenue was a higher component of last year's first quarter revenue. This year is lower which is consistent with the trend we observed through-out last year which I referred to earlier. In Q1 2017, billable services amounted to approximately 5% of total revenue.
- Pleasingly, there is a substantial improvement in our EBITDA loss compared to the prior year – a trend we expect to continue as we realise cost efficiencies across the business.
- Content commissions have also begun to build since the start of this financial year and to date are meeting our expectations.
- However, expense management is not trading as well as we'd anticipated.

We are not in a position to guide with respect to revenue expectations for the full-year ended March 2017 due to the difficulties in forecasting the timing and rate of growth tied to a number of new contracts, products and some strategic partnership initiatives that we are currently working on.

In terms of growth drivers for FY17:

- serko.travel was launched in conjunction with XERO in late July. The full marketing campaign rolls-out across the remainder of New Zealand and the whole of Australia over the next few weeks through to late September. Accordingly, it is too early to be able to comment on performance and growth trends at this stage. We expect to be able to provide an initial assessment of performance at the Interim Results announcement in November 2016.

- We are in negotiations concerning additional partnerships and we are hopeful that one or more of these will be finalised soon. In light of the time it takes to on-board a number of new customers, the timing of contract execution is likely to mean that contribution to FY17 revenue will not be material.

Governance

We take corporate governance very seriously at Serko. This year we have been particularly focused on Board composition and Performance. To this end we have developed a Board skills matrix and participated in the Institute of Directors' Better Boards evaluation programme.

We have also been focused on risk management and have in place comprehensive risk appetite and principal risk frameworks. These frameworks provide the Board and management with a robust lens through which to evaluate future growth strategies and opportunities.

CFO Departure

Tim Bluett, our CFO for the past 3 years has taken up an opportunity at The Warehouse. Tim, on behalf of Serko, I'd like to thank you sincerely for your contribution and wish you all the best for the future. We are in the process of appointing an Interim CFO.

Conclusion

On behalf of the Board, I'd like to acknowledge and thank the entire Serko Team for their hard work and dedication to deliver a number of innovative and complex products over the past year.

And thank you shareholders for your ongoing support.

ENDS