



## Market Release

22 May 2019

AUDITED FINANCIAL RESULTS FOR THE YEAR ENDING 31 MARCH 2019

### ***Serko establishes foundations for Northern Hemisphere growth***

*Ongoing growth in core Australasian business and acquisition of US expense management provider InterplX<sup>1</sup> underpins FY2019 financial results, while strategic investment into Zeno functionality and new content integration lay groundwork for growth in new markets.*

#### **Highlights:**

- Total Operating Revenue<sup>2</sup> rose 28% to \$23.4 million (at upper end of guidance range of 20-30%).
- Recurring Product Revenue rose 26% to \$20.7 million and total income (including grants) increased 28% to \$24.6 million.
- EBITDA<sup>3</sup> was \$2.6 million up 19% from \$2.2 million in the prior year.
- Serko remained profitable with profit after tax of \$1.6 million.
- Travel booking transactions grew 17% on the previous year.
- Peak Annualised Transactional Monthly Revenue (ATMR)<sup>4</sup> rose 41% to \$26.0 million lifted by the acquisition of InterplX (effective from 1 January 2019<sup>1</sup>); excluding InterplX ATMR increased 23% to \$22.5 million.
- Operating expenses increased by 32% to \$23.3 million reflecting investment into international expansion and extraordinary expenses.
- Research and Development (R&D) costs increased by 87% to \$9.2 million representing the significant investment in platform development for expansion into new markets.
- Of the \$9.2 million of R&D costs, Serko capitalised \$6.7 million as we moved into the build phase for Zeno to deliver our platform functionality to new customers and geographies.
- Oversubscribed capital raise of \$15.0 million (\$14.3 million net of costs) completed in August 2018 provided funding for expansion into new markets and strategic acquisitions.
- Cash balances of \$15.7 million as at 31 March 2019 included the net funds received from the capital raise of \$14.3 million. Cash burn for the year was \$3.8 million excluding those funds.

Corporate travel and expense management leader Serko (NZX:SKO, ASX:SKO) today reported continued strong growth in its maturing Australasian business and good progress laying the foundations for growth into new northern hemisphere markets.

Total Operating Revenue for the year to 31 March 2019 rose 28% to \$23.4 million from \$18.3 million in the same period a year ago, a result that is at the upper end of guidance<sup>5</sup>. Unfavourable exchange rate movements in the second half negatively impacted revenue by approximately 1%. Recurring revenue rose 26% to \$20.7 million from \$16.4 million in the same period a year ago. Within this result there is a three-month contribution of \$0.9 million related to the acquisition of US expense management business InterplX.

Revenue growth reflected the performance of Serko's established Australasian business, which continues to benefit from growing penetration and the adoption of Zeno, our premium platform. Serko gained additional customers and experienced an uplift in Average Revenue per Booking.

In line with expectations, the North America and European markets made a small but growing contribution to group revenue.

Peak fourth quarter ATMR (excluding the contribution from InterplX), an indicator of future recurring product revenue, rose 23% to \$22.5 million from \$18.4 million at the same time a year ago. Including InterplX, peak ATMR rose 41% to \$26 million.

## SUMMARY FINANCIAL RESULTS

	Years ended 31 March		
	FY19 NZ\$m	FY18 NZ\$m	Net increase/ (decrease)
<b>Revenue:</b>			
Travel Platform Revenue	15.95	13.28	20%
Expense Platform Revenue	2.71	1.54	76%
Supplier Commission Revenue	1.54	1.29	19%
Other Product Revenue	0.46	0.33	40%
<b>Recurring Product Revenue</b>	<b>20.66</b>	<b>16.44</b>	<b>26%</b>
<i>% Total Revenue (excluding Grants)</i>	<i>89%</i>	<i>90%</i>	<i>(1%)</i>
Services Revenue	2.70	1.84	47%
<b>Total Operating Revenue</b>	<b>23.36</b>	<b>18.28</b>	<b>28%</b>
Other Income	1.22	0.99	22%
<b>Total Income</b>	<b>24.58</b>	<b>19.27</b>	<b>28%</b>
Operating Expenses (excluding D, A &F)	(21.99)	(17.09)	29%
<b>EBITDAF<sup>2</sup></b>	<b>2.59</b>	<b>2.18</b>	<b>19%</b>
Net Finance Income	0.29	0.41	(30%)
Fair Value Remeasurement of Contingent Consideration	(0.29)	-	n/a
Depreciation and Amortisation (D&A)	(1.05)	(0.59)	(76%)
<b>Net Profit Before Tax</b>	<b>1.55</b>	<b>2.00</b>	<b>(23%)</b>
Income Tax Benefit (Expense)	0.09	(0.17)	151%
<b>Net Profit After Tax</b>	<b>1.63</b>	<b>1.83</b>	<b>(11%)</b>
Net Cash Held	15.73	5.23	201%
Employees (FTE)	173	106	63%

Operating expenses were up 32% reflecting the investment into personnel, premises and development for global expansion as well as one-off costs associated with Serko's ASX foreign-exempt listing completed in June 2018 and professional fees related to the purchase of InterplX.

Excluding non-cash costs, operating costs increased by \$4.9 million. Non-cash costs included \$0.5 million in depreciation and amortisation and a further \$0.3 million related to the acquisition of InterplX.

Consideration for the InterplX acquisition was by way of issuance of Serko shares, half of which is deferred and contingent on InterplX achieving key milestones. As a result, the liability for the deferred component of this acquisition will vary according to the trading price of the shares at balance date and up until the shares are issued. An increase in the Serko price therefore results in an accounting entry that reduces Serko's profit and increases the contingent consideration liability which is then extinguished on share issue. The final number of shares issued is subject to InterplX meeting the revenue targets as set out in the purchase agreement.

Earnings before interest, tax, depreciation, amortisation and fair value remeasurement on contingent consideration (EBITDAF) was 19% up at \$2.6 million compared to the prior year at \$2.2 million, ahead of guidance.

Net profit after tax (NPAT) was \$1.6 million down marginally on the prior year's \$1.8 million, affected by the non-cash fair value remeasurement adjustment for the deferred consideration relating to the InterplX acquisition. The result reflects Serko's determination to deliver a positive bottom line result, while still investing to take advantage of the significant growth opportunities it sees around the world.

Serko transitioned from a research and discovery phase in the Northern Hemisphere to a development and delivery phase. This required considerable Zeno development work, including porting a broad range of new content (including rail) onto the Zeno platform.

Reflecting this development work, we have capitalised more development costs than we did in the 2018 financial year. Total R&D expenses were up 87% to \$9.2 million, with \$6.7 million capitalised compared to the prior year of \$0.4 million. While this is a considerable investment, we are building to deliver on signed agreements with Northern Hemisphere Travel Management Companies (TMCs) and there are a number of corporates we expect to take up Zeno once the development work is completed.

Serko Chairman Simon Botherway said: "Serko has delivered another successful year. In the Australasian business we have benefited from growing transactions and increasing Average Revenue per Booking as we both gain new customers and more customers transfer to our premium Zeno travel and expense management solution.

"In the new North American and United Kingdom (UK) markets, it is very pleasing to note the number, and market presence, of those TMCs who have signed agreements to roll out Zeno to their customers, including Carlson Wagonlit Travel in the US, one of the world's largest TMC's.

"Demand for Zeno in North America has exceeded our in-house capacity to deliver. In response, we have boosted our resourcing and prioritised development as we configure Zeno to meet the operational and marketing needs of these customers. This includes integrating complex travel content and associated services, as well as customised TMC integration work.

"Our expanded team and the use of contractors will result in the progressive delivery of the commercial Zeno roll out in the US commencing early in the second half of the 2020 financial year. This investment will result in another year of cash burn, however this is an extraordinary level of investment, which is subsequently expected to normalise in the 2021 financial year. We expect to accommodate this investment within our existing balance sheet resources. We anticipate that the customer agreements we have signed to date will generate strong revenue and EBITDAF growth in years to come.

"Meanwhile, we have improved our ability to service these customers with the acquisition of InterplX, which enhances our suite of expense management solutions and gives us a US-based software development capability close to our North American TMC partners.

“We remain well funded following the completion of an oversubscribed \$15.0 million (\$14.3 million net of costs) capital raising in August 2018. Serko ended the financial year with a net \$15.7 million of cash on hand, having invested a net \$3.8 million of our cash reserves primarily into system development for international growth.

“Serko remains focused on delivering on the strong potential the company sees in new markets as well as continuing to drive the uptake of its services, particularly its premium Zeno solution.”

## **GROWTH STRATEGY**

Serko Chief Executive and Co-Founder Darrin Grafton said: “The strategic focus on growing Average Revenue per Booking and increasing Serko’s customer base has underpinned the company’s financial performance. Meanwhile Serko has laid the foundations for sustained growth in new markets.

“The first thing we had to do in Europe and North America was validate Zeno and we are delighted with the response we have received over the last year. Zeno resonates in these markets and the pipeline of customers continues to grow. The demand for Zeno demonstrates that Serko is leading technological innovation in the sector.

“Investment for these markets has seen our headcount increase to 173 from 106 at the same time a year ago. We have made new hires at all levels of the company to increase the speed of development and ensure readiness for global deployment, configuration and support.

“We are currently in the development phase of Zeno as a global platform for the future. We are evolving the product, recognising the differing systems and processes used within each new market and, of course, porting the relevant content to Zeno. Over the 2020 financial year the benefits of that ongoing investment will become apparent as we move from start-up to scale-up in those markets.

## **AUSTRALASIA**

“Thanks largely to the Australasian market, where Serko enjoys a sizable market share of all corporate travel bookings, we lifted recurring revenues in the 12 months to 31 March 2019. This included a 20% lift in travel platform revenues and a 19% increase in content revenues. Expense platform revenues rose by 76%, including the contribution from InterplX.

“In excess of 85% of our TMC’s in the Australasian region have agreed to make Zeno available to their customers and are actively promoting the benefits of Zeno. We have seen a steady migration of customers to Zeno from Serko Online.

“With Tandem (Air New Zealand’s TMC) signing last year and now Orbit (House of Travel’s corporate travel arm) signing this year and choosing Zeno as their preferred booking tool, we have gained blanket coverage of the Australasian corporate travel and expense management market for all the medium and large TMCs.

“We migrated Tandem’s customers to our platform during the first quarter of the financial year and have started to roll out our solutions to Orbit’s customers in New Zealand and Australia. In addition, Serko and Flight Centre have agreed a four-year extension of services which resulted in an uplift to revenue from October 2018 onwards.

“These agreements give us confidence that we can continue to extend our share of what is now a maturing market in Australasia and grow Average Revenue per Booking, while continuing to benefit from growth in the market as a whole.

## **NORTH AMERICA AND EUROPE**

“In the US we signed Flight Centre, CWT and Direct Travel as new TMC customers for the Zeno platform, and we expect these TMCs to be able to progressively extend the offering beyond ‘beta’ customers in the second half of the 2020 financial year.

“In Canada we signed the Custom Travel Solutions and Voyages Encore Travel TMCs and we are working to complete content integration, language features and system optimisation for both clients.

“In the UK we integrated UK rail content to Zeno for these customers, which is essential for UK corporates as they compare travel itinerary alternatives.

“The intensive development programme underway is key to setting the foundations for scale for both our TMCs’ operational needs and the corporations that will use our software.”

## **TECHNOLOGICAL INNOVATION**

“Our efforts to grow Average Revenues per Booking and customer numbers have been supported by the third leg of our strategy: continued technological innovation.

“We achieved a world first when Zeno received IATA certification of its connection to the Qantas Distribution Platform (QDP). Qantas, via QDP, is among the first airlines making use of the New Distribution Capability (NDC) data transmission standard, which allows Zeno customers to access key Qantas travel-related content such as frequent flyer information and seat and meal select.

“Similarly, we also connected Zeno to the NDC Exchange, a distribution service developed by APTCO and SITA based on the NDC standard. Through this relationship Zeno gained access to Air Canada and British Airways travel-related content.

“NDC is becoming the new platform for distribution in the sector and we have demonstrated a market-leading capability to link to NDC-enabled systems or via legacy systems. These partnerships provide blueprints for how we can link with other airlines using the NDC standard in the future and deliver new opportunities to grow travel content related revenues.

“Zeno is also assisting our TMC’s to stay ahead of competing technological innovations in the sector. In the prior year we assisted Flight Centre with its migration to the Sabre global distribution system and this year developed and launched Flight Centre’s Savi platform.

“We have also integrated ride sharing service Uber with our expense management tools. This allows trip information to be sent directly from an Uber for Business account to a Zeno user’s expense report. Finally, we have continued to invest in the resilience of the platform to ensure it can accommodate the growing demands on our infrastructure” Mr Grafton said.

## **OUTLOOK**

“Serko is in an exciting transitional phase as we invest in the development of our global travel and expense management platform for the future. Over the year we expect to make significant progress in completing development and the commercial roll out of Zeno for each new international market. We expect Northern Hemisphere revenues to ramp up particularly in the second half” Mr Botherway said.

“Internationalisation and the integration of new content and services are critical to delivery of the three pillars of our strategy – (1) growing our customer base; (2) making more revenue from each travel booking made through our platform; and (3) continuing to innovate and drive the development and adoption of our technology.

“It is still too early to be definitive about the outcome for the 2020 financial year. However, at this stage we expect Total Operating Revenue growth of between 20% and 40% in the year to 31 March 2020. As we remain in the build phase and have a significant development workload ahead of us, we have prioritised delivery to the markets and customers that represent the best opportunity for Serko. As EBITDAF is a small margin of revenue, the reported EBITDAF will be dependent on the revenue growth we achieve and the extent of capitalisation of internally developed software. Further guidance will be provided at our Annual Shareholders Meeting in August,” Mr Botherway said.

#### **Notes:**

Non-GAAP (generally accepted accounting practices) financial measures do not have standardised meanings 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 information to investors to assess business performance. A reconciliation of Net Profit to EBITDAF can be found in the Annual Report and Investor Presentation dated the same date as this announcement.

<sup>1</sup> Serko acquired US based expense management software company, InterplX Inc on 20 December 2018 in exchange for shares of Serko with 50% issued on completion and 50% issued on 31 January 2020. The InterplX results are included in the consolidated results from 1 January 2019.

<sup>2</sup> Total Operating Revenue is revenue excluding income from grants and finance income, while Total Income includes grants.

<sup>3</sup> EBITDAF is a Non-GAAP measure representing Earnings Before the deduction of costs relating to Interest, Taxation, Depreciation, Amortisation and Fair value remeasurement on contingent consideration. Serko uses this as a useful indicator of cash profitability.

<sup>4</sup> Peak ATMR is a Non-GAAP measure representing Annualised Transactional Monthly Revenue. Serko uses this as a useful indicator of recurring revenues from Serko products, based on the monthly transactions and average revenue per booking (for its travel platform revenue) and monthly active user charges (for its expense platform revenue). This is calculated on an annualised basis on a constant currency basis based on the daily weekday average multiplied by standard 260 weekdays in a year. Peak ATMR month was February for both 2018 and 2019 financial years.

<sup>5</sup> In December 2018 Serko said it expected revenue for the 2019 financial year to rise between 20% and 30% over the result achieved in the 2018 financial year. It also said EBITDA would be in line with prior year.

#### **ENDS**

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**About Serko**

Serko is a market leading travel and expense technology solution in Australasia, used by over 6,000 corporate entities and Travel Management Companies who combined book more than AUD \$6 billion of travel a year through Serko's platforms. Zeno is Serko's next generation travel management application, using intelligent technology, predictive workflows, and a global travel marketplace to transform business travel across the entire journey. Listed on the New Zealand Stock Exchange Main Board (NZX:SKO) and Australian Securities Exchange (ASX:SKO). Serko employs more than 170 people worldwide, with its headquarters in New Zealand, and offices across Australia, China, India, and the U.S. Visit [www.serko.com](http://www.serko.com) for more information