Serko FY15 Interim Results Announcement Transcript

Wednesday 20th November 11.30am

Darrin Grafton / Tim Bluett

Hi, Good morning, and thank you for joining today's interim results announcement for Serko. My name is Darrin Grafton, the CEO for Serko and I'm joined today by Tim Bluett, our CFO. Tim and I will talk through the slides that you should all have in front of you, then we'll open the phone lines up to questions from the floor.

We'll skip over slide number 2, the Important Notice, and move onto Slide 3, the Summary Overview for the period.

Let me start by providing a very quick overview of the business. I'll get into more detail on all of these points throughout the course of this morning's presentation.

As you'll all be aware, we listed the business on the NZX Main Board on June 24th, so although these results cover a full 6-month trading period, only 3 of those months are part of our listed history. That said, I'm pleased to announce that it's been a very positive start to FY15. Year on Year revenue is up by 50% and our overall performance is in line with expectations.

We've got a healthy pipeline of new sales coming through from the Travel Agencies that resell Serko Online across the region and we are participating in a number of key RFP's which is great, and we're adding great people right across the business to help us onboard new customers and manage the growth.

Our geographic expansion plans are developing and evolving, with the majority of our focus right now on India. At the same time, we’re seeing significant interest in our products from the North American market, to that extent we’re considering adding to our geographic plan to include North America. I’ll talk more about that later on.

Our product portfolio, which drives our business forwards, is in good shape. I’m particularly pleased with the progress that we’ve made with Serko Mobile, and I’ll talk in more detail about our mobile strategy shortly.

At a macro-level, the online travel booking and expense management industry has undergone some fairly significant change during the last 6 months, with our major competitor Concur being acquired by SAP.

Let’s move onto Slide 4, Financial Highlights.

From a financial perspective, the first half of the year played out as we expected. The key metrics for Serko are revenue and online travel booking transaction volumes.

Overall revenue was up by 50% compared to the same period last financial year. Total revenue for the half was $4.7m New Zealand Dollars. Revenue from travel bookings, the core revenue growth engine for the business was up 36%, which is pleasing and in line with expectations.

The graph on the left shows our online transaction trend since April 2012.

From a transaction perspective, travel bookings were up 32% compared to the same period last year and grew month-on-month throughout the period. On a like for like basis, transactions in September 2014 were 59% higher than September 2013, which gives you some insight into the rate of growth that we have been experiencing of late.

Based on the current growth rate I am confident that the company is on track to deliver the full year revenue forecast and, based on the building pipeline of business, I feel positive about the outlook for the full PFI period, which runs to September 2015.

Let’s move on to Slide 5 and look at the business through the Sales lens.

Our business is fuelled by our Travel Agency partners that sell our online travel booking capability to their corporate customers, which makes them the key to our growth. Over the last six months we’ve experienced really good support from all of our resellers and it’s clear that we have a product that is very well tuned to their needs.

Across Australia and New Zealand we are continuing to add tier 2 resellers in order to increase our addressable market. With our reseller base across Australia and New Zealand we believe that we are now exposed to somewhere in the region of 90% of the corporate travel spend in the region.

Alongside transaction revenues we also have revenue flowing into the business from services and of course Incharge, our integrated expense management solution.

Revenue from Incharge, the business we acquired in December 2013 is growing nicely as we have started to leverage the business. Incharge has the potential to be a very powerful tool for accessing new markets as it has a short sales cycle and a very rapid return on investment. We're exploring a number of interesting opportunities in Australia and India that would allow us to use Incharge to disrupt existing business models and we expect those plans to come to fruition during the second half of the financial year.

Revenue from services – which includes bespoke software development for clients is growing in line with forecast.

To drive growth and maintain our sales trajectory we've added a further 9 people to the customer facing team in the first half, taking us up to a total of 20 quota carrying sales people. Again, this is in line with expectations.

And now moving on to slide 6, a brief Operational review.

Managing very rapid growth in any organisation is tricky and it involves careful resource planning and clear focus on operations. In this regard Serko is no different. During the first half 19 people joined the business in full-time operations roles, which took us to 84 at the end of the period. We've invested heavily in the team that helps new customers onboard as they're key to driving transaction growth. For the first time we've also added dedicated support staff to work with our largest customers. They have a pivotal role to play in ensuring that our transaction volumes stay on track.

I'm extremely pleased with the calibre of the people that we're finding in the market. Our new staff on-boarding processes are first-class and we're finding that we're able to bring new staff up to speed quickly and efficiently, something that's particularly important in fast moving markets like ours.

To accommodate the staff growth we've taken over new floor space in Auckland, so the team now spread across 2 floors. The Auckland office now accommodates 80+ people.

Our operational expenses are again growing in line with expectations and we expect that to remain the case during the second half of the year.

And onto Slide 7 for a Product update.

Moving on to look at the product space. New product development not only helps us to target new markets but also increase the average revenue per booking, which is an important area of focus for us, as it allows us to grow our business on a different vector to pure transaction volume.

We talked extensively during our IPO about the plans that we have for mobile and the role that mobile technology would have in transforming the business travel booking space. I'm pleased to confirm that those plans are now starting to come to fruition and we have Serko Mobile in commercial trial with a number of our larger Travel Agencies. Good mobile technology is expensive and time consuming to build and user tolerance is low for poor experiences, so we're making sure we're 100% confident in the product before we launch it commercially in February next year.

We've also been working with Expedia and Wotif during this trading period to integrate their hotel inventories and make them available to Serko Online users. Hotel leakage, where users book flights through their Online Booking Tool, but use leisure sites like Expedia for hotels has always been an Achilles heel for managed travel programs. By bringing the content that travelers want to book, for whatever reason, inside the tent, we can not only help travel managers reduce out-of-program booking, but also drive our revenues up, as the low cost aggregators pay us a commission for every room night booked. This is all part of our global content integration and eco-system strategy.

Lastly we're starting to see real traction in the wholesale or 'powered by Serko' market, which I believe will start to play a larger part in our business going forwards. By partnering with organisations that have a strong retail brand but have a weak technology arm we're able to leverage our technology investments and create a scalable passive income stream. Over the last twelve months we've been working closely with INX, a leader in the resource management space, to develop an integrated resource management and travel booking solution for companies in the energy and resource sector, this investment is now starting to bear fruit and we're moving into commercial trial phase with some large tier one mining companies in Australia. We also have a number of other opportunities to back-end retail travel booking websites that we're actively exploring.

I hope that's given you a good view into the various areas of our business that drive our growth. I'd now like to hand over to Tim who will cover the financial aspects.

Thanks Darrin, and welcome everyone. You should now be looking at Slide 9, our Summary Income Statement.

Our reported revenue and losses for the first six months of this financial year are fully in line with the forecasts contained in our Prospectus. The losses are significantly higher than the prior period, which reflects the planned investment we have made in growing our organisation and operational capacity to support the pipeline of growth for the business. I will talk in more detail about the revenue and opex lines on the next slide.

Our IPO and listing was effective on the 24 June. These interim results include the full recognition of the costs of the IPO, which have been finalised and the accounting treatment confirmed.

The total costs of the IPO amounted to $2.12m compared to $2.10m estimated in the Prospectus, which is a difference of less than 1%. Out of this total $1.637m was the cost attributed to the issue of new equity, which has been recognised as a cost of equity in the balance sheet. The remainder of $483k was recognised through the P&L/Income Statement and was very slightly higher than the $477k we had forecast in the Prospectus.

Net finance expense reduced to almost zero following the repayment of all interest bearing loans and facilities on 24th June, and the subsequent income from interest received from cash held on deposit offsetting the interest expense in the first quarter.

And now let's move onto Slide 10 for a review of our financial performance.

The growth of 50% in Total Revenue is broken down as follows:

- Serko Online delivered a 36% increase in revenue on the back of transactional growth of 32% over the six month period with revenue of $3.2m. As Darrin highlighted earlier, our monthly run rate growth is accelerating, with transactions in September 2014 being 59% higher than September 2013, which is consistent with our full year forecast model.

- Other usage driven revenue is generated by Serko Incharge Expense Management, the business we acquired in Dec 2013, which contributed $453k in the period.
- Total usage based revenue in the half year therefore represents $3.6m which is 77% of total revenue and 55% greater than in the same period last year.

The increase in operating expenses was largely driven by remuneration costs, which increased by around $3m compared to the prior year. Headcount at 30 September 2014 was 118 employees compared to 68 at September 2013. As Darrin has already explained we have concentrated growth to our sales, technology and operations teams.

Administration Expenses represented the next largest increase of $1.7m, which was driven by IPO and listing costs, travel, professional services linked to our IP portfolio, computer and license costs, insurance, and recruitment.

And finally let's move to slide 11 for a brief Cashflow analysis

The waterfall chart on this page summarises the key movements in cash over the first half of the financial year. We commenced the first half with a net overdraft position of $0.9m on 1 April.

The cash received from the issue of new shares and balance of principal from convertible note holders amounted to $17.4m.

Payments relating to the cost of the issue of new shares amounted to $1.0m in the period and we repaid outstanding debt being the $1.8m principal on shareholder loans and other loans of $0.8m.

At an operating level, receipts from sales, interest and grants totaled $5.3m in the period and operating expenses totaling $9.0m which included interest and financing costs for the period prior to the IPO of $0.4m. Capital expenditure amounted to $0.8m.

At 30 September our closing cash balance stood at $8.3m, consistent with our forecast expectations.

We manage our cash tightly according to our Treasury Policy and make use of Forward Exchange Currency contracts for hedging purposes and a mix of term and call deposits for surplus cash.

Now let me hand back to Darrin to cover the last few areas of interest this morning.

Thanks, Tim. You should all now be looking at slide 13. I'd like to spend the last few minutes of this call looking at the bigger picture, our strategy and the broader outlook.

In terms of industry dynamics, the last 6 months have been particularly exciting. During the period SAP announced their intention to acquire Concur, our biggest competitor and the only other truly independent Online Booking Tool in the market, for 8.3 billion US dollars. This acquisition was not-unexpected but is remarkable for a number of reasons:

First, it shows that travel and expense is a critical business process that is extremely valuable. Second, it shows that innovation inside really large companies, like SAP, is a real challenge, and that innovative companies can command a very high premium. And, like all acquisitions, there's likely going to be a short period of time where Concur will be distracted by the integration with SAP, which certainly couldn't come at a better time from our perspective.

While SAP have been working on the Concur deal, the rest of the world has been worrying about Ebola, which segues nicely into the new Health and Safety obligations that are impacting corporations in Australia and will impact New Zealand corporations from April 1st next year. The new regulations make company officers responsible for the Health and Safety of their employees whist they are travelling away from the office on company business. This is a major change for organisations and the threat of criminal prosecution for failure to act appropriately is prompting organisations to look carefully at their policies and practices. It goes without saying that knowing where employees are and where they are staying is the first step to keeping employees safe and we're obviously extremely well placed to help organisations manage these requirements.

How we play our cards over the next 12 months is going to be extremely important to our long term success, so we’ve invested a lot of time over the last six months reviewing and refining our strategy for regional expansion across Asia. Our immediate focus remains on India, where we have people on the ground and we’re actively building a pipeline with the help of existing Travel Agencies. We have a very interesting distribution deal with Diners Card for Serko Incharge that we expect to activate during the second half of the year which will see Diners customers get provisioned with an instance of Serko Incharge, at Diners’ cost, to help them manage their card transactions.

As expected, our existing APAC resellers, like Flight Center, are pulling us into some of the smaller Asian markets like Hong Kong, Singapore and Dubai. Although these are interesting markets that will stand a high price point, they don’t represent huge transaction volumes, so we must be careful to ensure that we maintain our focus on markets where there is substantial transaction volume to work with.

Interestingly, we’ve seen significant interest from the US during the last six months, with a licensing deal for Serko Mobile that we announced to the market in September and some genuine interest in our patented Mass Booking technology from Travel Agencies focused on the Energy and Resources Sector in Canada and Texas. In fact the team are at a very large event in Houston this week to meet a number of prospective clients. Based on the interest we've seen, I now see an opportunity for Serko to make a play into the US market and we're actively exploring what that play might look like.

The launch of Apple's NFC payment solution into the US earlier in the year has stimulated interest in our patent portfolio. Thanks to Apple, mobile payment is now mainstream, and as a direct result, a number of organisations operating in the expense management space have expressed interest in our paperless expense management patent.

So, to conclude today's presentation I want to take a brief look at the bigger picture. I hope you will all agree with my assessment that the first half has been successful and that you will also share my optimism that the second half will be as good, if not better than the first. Today, the business is on track to deliver its revenue forecast and we have a number of significant RFPs in play that have the potential to offer upside to the second half and FY16 should we be successful.

To ensure these comments are interpreted in the right context, I'd just like to re-iterate the fact that our success is very much in the hands of our reseller partners and their corporate customers. The readiness of corporate customers to onboard with Serko Online can be dependent on their own internal processes, which can mean that transactions and associated revenues could be delayed until that internal readiness is confirmed.

We have made a decision to accelerate elements of our headcount plans to support the additional growth opportunities discussed today. We do not expect this decision to materially impact our cost base for the FY15.

There's no doubt that H2 promises to be an exciting and pivotal period for the company and I'd like to thank you all for your support in helping us to get this far. Our goal is to transform business travel, and we're starting exactly as we mean to carry on.

We will be doing a post results briefing in a week or two, and we look forward to meeting some of you in person at those events. The team will be in touch shortly with the details.