Full Year Results Announcement Script

Friday 22nd May 2015 11.30am

Darrin Grafton / Tim Bluett.

- Slide 3 (Agenda): Darrin

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

- Slide 4 (FY15 A Platform for Growth): Darrin

Let me start by saying that overall I think 2015 was an extremely positive year for Serko. The company maintained its extraordinary growth trajectory whilst also delivering a number of important and strategic product milestones along the way. Travel technology is a dynamic industry that's changing fast and to be able to consistently deliver year on year growth in excess of 50% is a testament to business and the team that run it.

In the year ended March 2015, Serko delivered the highest growth in its history with a 55% increase in year on year revenues and a second half transaction growth rate of an incredible 57%. Our IPO, which completed in June 2014, raised a net $10.5 million, which we have directed towards the construction of a strong platform to support our future growth. For us, this has meant expanding our operational capabilities and investing in building new products.

During the course of the year we invested a total of $5.7 million in R&D projects, which represents an increase of about 70% over FY14. $5.1 million was expensed through the P&L and $0.6 million capitalized. This strategy has allowed us to continue to evolve our core products and to introduce some innovative enhancements that will make our market proposition more integrated, more unique and more compelling for our customers across the Asia Pacific region.

Through FY15 we added 46 new Serkodians to the team, to finish the year with 133. We added resource right across the business and across the globe, with new hires in New Zealand, Australia, India and China. To support the business we doubled the size of our sales team and significantly expanded the size of our development and customer delivery teams.

Developing and patenting innovative IP has always been part of our strategy and I'm pleased to report that we've been able to continue that thread through 2015 with our NFC expense patent now registered in the USA and have seen some strong international interest in our patented Mass Booking technology.

In support of our broader Asia strategy we now have a wholly owned Serko subsidiary in India with 2 permanent employees.

Let's turn to the next slide.

- Slide 5 (FY15 highlights): Darrin

Our total business revenue of $10.4 million represents an increase of 55% over last year.

Corporate travel administrators and travellers using our technology to book their business travel is at the core of our business and I'm pleased to tell you that on line booking transactions grew by 44% year on year. The growth rate continues to be strong with first half growth of 32% increasing to 57% in the second half.

We recorded a net loss after tax of $6.4 million, which was in line with PFI, despite revenues being $0.6m below PFI, which demonstrates strong governance and cost control. We ended March with cash reserves of $4.5 million and a strong working capital position.

I'd now like to hand over to Tim who will cover the financial aspects.

- Side 6 (Summary Income Statement): Tim

Thanks Darrin, and good morning everyone. You should now be looking at Slide 6, the Summary Income Statement

The table on this slide summarises the income statement in the same format that was used to present the PFI in our prospectus for ease of reference and is slightly different to the statutory format in the condensed financial statements due to the way expenses are grouped.

Operating revenue for the year totaled $10.4 million which was 5.8% below PFI target as we signaled in our Trading Update in March, but represented annual growth of 55%.

Within that our core Serko Online revenues grew by 62% to $7.3 million and was in line with PFI expectations.

Incharge, our online expense management business that we acquired in December 2013, contributed $0.9 million of revenue in its first full year with us, which is a 15% increase on a like for like basis. Disappointingly, the growth rate in the final quarter was impacted by delays in the release of the integrated Mobile app, which gave rise to the PFI revenue target being short by about $0.2 million.

Revenue from custom software development totaled $2.1 million, which was $0.3 million less than the PFI target. This is a discretionary area of spend for our customers and we observed a falling away of demand in the latter stages of 2015 as customers considered their budgets more carefully and the product reached a higher level of maturity.

Total operating expenses amounted to $17.3 million. This was approximately double the previous year, but was more than $0.3 million lower than the PFI target. The largest component of cost was Employee Remuneration, which totaled $12 million. Employee count increased by 46 to 133 FTE at 31 March.

Within total operating expenses, allocations to R&D represented $5.1m in the year.

Other operating income comprised receipts from R&D and Enterprise Growth grants and totaled $1.4 million for the year. Callaghan Innovation through MBIE approved Serko for a new Development Growth grant, which became effective from 1 July and had not been anticipated within our PFI. As always, we are extremely grateful for the support the government provides for approved R&D programs.

Returning to operating costs, as we advised in our half-year results, the total costs of the IPO amounted to $2.12 million compared to $2.10 million estimated in the Prospectus, which is a difference of less than 1%. Out of this total $1.637 million 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.

As I'm sure you are aware, the exchange rate between the NZD and the AUD has been extremely volatile over the past year. Our PFI was struck on an average exchange rate of 0.93. During the first half there wasn't much of a departure from that figure, but during the second half when the NZD approached parity, it hurt our results despite our hedging cover. Overall we recorded foreign exchange losses of $0.2 million through the P&L.

As I have worked through the commentary I have made reference to the variances to PFI. There is a summary reconciliation attached as an appendix for further information.

Moving onto Slide 7

- Slide 7 (Cash and Working Capital): Tim

Closing cash was $4.5 million, approximately $0.5 million less than PFI due mainly to timing differences linked to accrued revenue being contractually invoice able in April, and prepayments of $0.4 million. Our aged receivables are in good shape and overall our working capital position is healthy.

Now let me hand back to Darrin to talk about Serko's strategy for growth

- Slide 8 (Serko's strategy for growth) Darrin

To deliver the value that we believe is inherent in the Serko model we need to do a number of things really well.

We need to continue to grow the number of potential users to whom we can sell services. We will do this by working closely with Travel Agencies as we do today but also by looking for further strategic M&A opportunities, similar to the Arnold Technology acquisition that we completed in May.

It's vital that we continue to evolve our business model, layering on the other revenue lines such as supply side hotel and airport transfer revenues as well as mobile subscriptions. Between Incharge, Arnold and Serko we have a great opportunity to cross sell products, which is something we're starting to get momentum around now.

To keep ourselves on track it's vital that we continue to invest in our products. We have learned over the last few years that in the travel space having a local and relevant content proposition is key to our success, so we will continue to plug in suppliers such as Air Asia to ensure that we have a compelling Asia-wide content story that will allow us to capitalize on the opportunities that we have across Asia and into India.

For the last part of this morning's presentation I want to focus a little more closely on how we see the next 12 months playing out.

You should all now be looking at slide 9. I'd like to spend the last few minutes of this call looking at the broader outlook for FY16

- Slide 9 (Revenue growth by user volume) Darrin

Right now we have about 2 million traveller profiles stored in our database, which means that there are effectively 2 million people that could book a trip tomorrow if they wanted to. Of course only a proportion of those are active at any point in time, but the more potential travellers we have the more opportunity there is to capture a greater share of the total end to end travel spend.

As it stands today we have an average per-traveller revenue of between $5 and $10, which is derived predominantly from our standard per-booking revenue stream. As outlined earlier, our strategy is to not only increase the number of people that use our software but also increase the value of each trip by layering up a number of different products and subscriptions. Right now it’s not difficult to see our way to a per-traveller value of $25, which gives us a very exciting revenue trajectory over the next few of years. You’ll note that basic booking revenue plateaus out over time, which is natural in a market that’s maturing and evolving quickly.

This is, in my opinion, the real story and the real opportunity for Serko.

Let’s move on to talk a bit about the timing of revenue.

- Slide 10 (FY16 Revenue timing) Darrin

I want to briefly acknowledge a couple of timing issues that impacted us during the year.

Our mobile application launched later than we had planned, which had a knock on effect on revenue. We made the decision to delay the launch of the app to ensure that it truly reflected the needs of the market, which I maintain was exactly the right decision. The app is now live in both the App Store and on Google Play.

We also ended up with a delay in Incharge revenue, particularly in the last quarter of the year. We invested a lot of time and effort refactoring and integrating the Incharge product during FY15, which was the right thing to do, however prospective customers delayed making buying decisions until they had a chance to see the new product, which was delivered about 8 weeks later than planned. The Incharge product is now live in the market and is getting a lot of traction as it solves some very real problems that companies have.

Software customization has historically represented up to 20% of our business, however that changed during 2015 as our product hit a level of maturity and our resellers became a little more cost conscious. Although this impacted our revenue line it's not necessarily a bad thing, as software customization is not strategic revenue and without it our teams are able to focus on more strategic high-growth initiatives.

As we highlighted in our Trading Update on the 9th March, these factors will have an impact on our forecast run rate for the first half of 2016 but less so for our full year forecast, which leads onto my last slide for today – our outlook for 2016.

- Slide 11 (FY16 Outlook) Darrin

To be successful and deliver the growth that we know is there we need to do two things really well.

1) We need to capitalize on the product investments we made in the 2015 to open up new revenue lines and increase our share of corporate travel spend. We know how to do this, we have all of the pieces in place and we now need to execute brilliantly.

2) At the same time we need to continue to acquire new corporate customers across Asia and onboard potential users through both organic, and where appropriate inorganic means. It is the combination of a layered product model and an increasing user base that is the key to our success. Our Arnold acquisition is the perfect example of high volume customer acquisition at minimal cost and it's a model I'm keen to rinse and repeat wherever possible.

In terms of revenue expectations, we are forecasting full year FY16 revenues of between $16 million and $18 million, which should see the company on a path to profitability within the first half of FY17 based on existing cash reserves.

As already signaled delays in the delivery of some products, coupled with a change in the demand profile for software customization will constrain revenue in the first half of FY16 to somewhere between $7.5 million and $8 million compared to a PFI forecast of $8.3 million.

And that concludes the formal part of this morning's business. Thank you all for your time and patience. I'd now like to open the floor up to questions.