



## Market Release

25 May 2016

### Serko FY16 Full-Year Results Announcement

Serko Limited (NZX:SKO) today announced its full-year audited financial results for the year ended 31 March 2016. Highlights from the financial period include:

- Serko Online and Incharge recurring product revenue of \$12.2m representing 47% year-on-year growth
- Serko Online booking revenues of \$10.9m representing 49% year-on-year growth
- Online transaction growth of 54% compared to previous year
- Overall, total revenues of \$13.1m representing 27% year-on-year growth
- R&D investment of \$6.3m, up 9% from the previous year<sup>1</sup>
- Net loss before tax of \$5.9m reduced from previous year of \$6.4m
- SME<sup>2</sup> platform revenue to commence in FY17
- Serko aims to achieve sustainable monthly breakeven profitability and positive cash-flow by the end of the FY17 year from its available cash reserves of \$7.1m at 31 March 2016.

|                                       | Years ended 31 March |               |                             |
|---------------------------------------|----------------------|---------------|-----------------------------|
|                                       | FY16<br>NZ\$m        | FY15<br>NZ\$m | Net increase/<br>(decrease) |
| <b>Revenue:</b>                       |                      |               |                             |
| Serko Online                          | 10.92                | 7.34          | 48.7%                       |
| Serko Incharge Expense Management     | 1.25                 | 0.91          | 37.4%                       |
| <b>Core Product Revenue</b>           | <b>12.17</b>         | <b>8.25</b>   | <b>47.4%</b>                |
| <i>% Total Revenue (Exc Grants)</i>   | <i>93%</i>           | <i>80%</i>    |                             |
| Services Revenue                      | 0.95                 | 2.11          | -54.8%                      |
| <b>Total Revenue</b>                  | <b>13.12</b>         | <b>10.36</b>  | <b>26.6%</b>                |
| Other Income (grants)                 | 1.30                 | 1.41          | -8.3%                       |
| <b>Total Income</b>                   | <b>14.42</b>         | <b>11.77</b>  | <b>22.4%</b>                |
| Operating Expenses (inc D&A)          | (20.74)              | (18.07)       | (14.8%)                     |
| Net Finance Income (cost)             | 0.37                 | (0.14)        |                             |
| <b>Net profit / (loss) before tax</b> | <b>(5.94)</b>        | <b>(6.43)</b> | <b>7.6%</b>                 |
| Net Cash Held                         | 7.12                 | 4.50          |                             |
| Employees (number)                    | 127                  | 133           |                             |

<sup>1</sup> R&D (Research & Development) costs is a non-GAAP measure representing the internal and external costs related to R&D

<sup>2</sup> SME - Small to Medium Enterprises

## **Financial Highlights**

For the 12 months of FY16 total income amounted to \$14.4m (\$13.1m excluding grant income). Recurring product revenues (from Serko Online and Serko Incharge) increased by 47% to \$12.2m in the year. The majority of our revenue growth during the year came from transactional revenue derived from online travel bookings which increased by 54% in volume in the period, including the Arnold acquisition. Revenue mix in FY16 comprised 93% derived from recurring transactional product and usage revenues compared to 80% in FY15.

Total revenue of \$13.1m (excluding grant income) was 27% higher than the same period in FY15. Despite the strong growth in underlying transactional fee revenue, aggregate revenue did not meet our guidance for the financial year. Customised development revenues which are not a core focus for the business declined by \$1.3m from the previous year. This provided the opportunity to focus our resources on developing the new SME (Small to Medium Enterprise) platform which is expected to generate revenues in the second half of FY17.

At 31 March 2016 there was committed SME licensing revenue of \$0.2m which under accounting rules could not be recognised in the FY16 result.

In line with our plans, the loss before tax reduced from the previous year by \$0.6m to \$5.9m. This was attributable to limiting the growth in the total expense base to a total of \$20.7m which was up 14.8% compared to the previous year. Excluding depreciation, amortisation and impairment charges, operating expenses increased by 14% to \$19.8m compared to the previous year.

The investment in R&D (total of expensed and capitalised) in FY16 amounted to \$6.3m, an increase of \$0.6m from the previous year.

“The 54% increase in online booking volumes during the period points to our success in capturing a greater share of the Australasian corporate travel market”, said Darrin Grafton, Serko CEO. “During the course of the year we expanded our relationship with some of the largest global and regional Travel Management Companies (TMCs) in the region as well as introducing a number of new TMC resellers to Serko to increase our total addressable market. In aggregate, Serko Online is now transacting travel bookings with a total value of close to \$5 billion on an annualised basis.”

## **Financial Position**

During the financial period Serko successfully completed a capital raise of \$8.1m at 84c per share through an institutional placement and a retail share purchase plan. This capital will assist to fund business operations and support the launch of our new Small and Medium Business (SME) offering in FY17.

The company has started work to explore the possibility of listing on the ASX (Foreign Exempt Listing) during the 2017 financial year (FY17).

Cash reserves at 31 March 2016 were \$7.1m.

## **Performance Drivers in FY16**

Throughout the year ended 31 March 2016 (FY16), Serko has concentrated on executing its strategy of increasing average revenue per transaction, whilst growing the size of the customer base. The process of securing reseller participation in our content program took longer to complete than expected due to the complex nature of the commercial negotiations with partners and content providers. However, all the necessary products, innovations and enhancements are now in place, with the exception of SME which will be delivered soon, and we expect these to start contributing to revenue growth in FY17. We expect average revenue per transaction to increase through FY17 as the proposition gains awareness and traction with end-user customers.

Our content-led strategy generates additional revenue per transaction by offering the traveller additional content such as hotel rooms sourced from our preferred content partners. We now have agreements with reseller partners, representing over a third of Serko's total transaction volumes, to offer this content through to the underlying corporate users.

We identified a new strategic opportunity in the small to medium business (SME) market during FY16 and developed a powerful new proposition that is expected to launch in the middle of FY17 to address this market. We have entered into partnerships with Xero and a select group of TMC partners to target this market.

During the financial year we also introduced a new Expense Management reseller incentive program with our TMC channel for our Serko Incharge expense management product to increase awareness and sales of our Incharge product and its key features. We believe we can generate additional sales leads through our established channels, and the program has been received well and is starting to generate a growing volume of leads into the sales pipeline.

In May 2015, Serko acquired the business and assets of Arnold Travel Technologies Pty from Expedia Inc. for AUD\$0.1m. This allowed us to accelerate the acquisition and migration of customers from a rival platform and to enter into an important strategic relationship with Expedia Inc. In the 11 months to 31 March 2016, Arnold contributed NZ\$1.3m in revenue. We are making good progress in migrating Arnold's customers onto the Serko platform and expect to decommission the Arnold platform in mid FY17.

### **Performance Drivers for FY17**

Our purpose remains to transform the way businesses manage travel and expense, enabling their staff to experience stress-free travel so they can always be at their most productive, whilst delivering tangible business benefits to the organisations that choose to adopt, support, partner with or sell our solutions.

We aim to do this by:

- Supporting our reseller base to continue to grow their business through new client wins and client retention. We will focus on ensuring our products offer compelling value and by introducing our new products, services and a broad selection of content that help our resellers deliver to their customer needs.
- Continuing to attract new resellers and partners to Serko.
- Entering the SME market in Australia and New Zealand to create a new, emerging and leveraged business that gives us the path to extend our market reach and recurring revenue base.
- Focussing on those areas of the business that create value for shareholders. We have invested heavily in R&D and we are now in a position of having a strong product suite. The decommissioning of Arnold along with a reduced requirement for R&D spend presents Serko with flexibility to better align the cost base with revenue to ensure that we utilise our capital resources appropriately.
- We aim to manage our cost base, financial and capital position to achieve sustainable monthly break-even profitability and positive cash-flow by the end of the FY17 year.

"Serko is the leading on-line booking platform for managed corporate travel in the Australasian market. We are very proud that our technology, innovation and services are so widely adopted and valued within the industry", said Grafton. "Our success relies upon the success of our customers – both resellers and end user corporate clients – and we are committed to ensuring our capabilities and relationships facilitate that mutual success. However, we will take a rational approach to areas of the business that are not meeting our expectations to ensure that our resources are allocated to those parts of the business which will deliver long term value to shareholders."

"The next financial year FY17, will be an important one for Serko and we look forward to working with all our stakeholders to deliver value for our customers, partners and shareholders", continued Grafton.

Serko will provide an update on performance and progress for the FY17 year at the Annual Shareholder Meeting to be held on 23 August 2016.

For more information:

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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 users choice of travel provider.