

Market Release

20 November 2019

FY20 Final Half-Year Results Announcement

for the period ended 30 September 2019

Serko delivers strong revenue growth

Online booking and expense management leader delivers a 29% increase in half-year Total Operating Revenue, in line with guidance
EBITDAF² remains positive amid an acceleration in investment for growth

Highlights from the unaudited six-month period:

- Total Operating Revenue¹ for the six months ended 30 September 2019 increased 29% to \$14.7 million from \$11.4 million in the same period last year. The result is in line with guidance of an increase of 20% to 40% for the full year.
- Total Recurring Revenue¹ rose 38% to \$13.3 million from \$9.6 million in the same period a year ago and represented 91% of Total Operating Revenue.
- Total Income¹ from all sources, including grants, rose 29% to \$15.2 million from \$11.8 million in the same period last year.
- Net profit after tax (NPAT) fell from \$0.9 million in the same period a year ago to a loss of \$0.9 million. Half-year EBITDAF² was \$1.4 million down from \$1.5 million in the same period a year ago.
- Travel booking platform transaction volumes for the period were 2.2 million up 4.5% over the same period last year.
- ATMR³ reached a peak of \$26.2 million during the period up 35% from \$19.4 million in the same period last year.
- Operating Expenses increased 46% over the same period last year to \$15.7 million from \$10.7 million.
- Research & Development (R&D) costs were \$8.9 million, with \$6.4 million capitalised and \$2.5 million included in Operating Expenses.
- Cash on hand as at 30 September 2019 was \$10.3 million, down from \$15.7 million at 31 March 2019.

¹ Total Operating Revenue is revenue excluding income from grants and finance income, while Total Income includes grants. Recurring Revenue is non-GAAP measure representing recurring revenue derived from transactions and usage of Serko products by contracted customers. It excludes revenues from customised software development (Services Revenue).

² EBITDAF is a non-GAAP measure representing Earnings or Losses before Interest (net Finance income/cost), Tax, Depreciation, Amortisation and Fair value remeasurement of contingent consideration. Serko uses this as a useful measure for an estimate of operating profits excluding non-cash expenses. A reconciliation of EBITDAF to net profit has been provided in the investor presentation accompanying this announcement. Depreciation has increased with the adoption of IFRS 16 and includes rental payments of \$0.5 million which would previously not been included in depreciation as a result of recording a Right of Use Asset and Lease Liability under the adoption of IFRS 16 (Leases).

³ ATMR is a non-GAAP measure representing Annualised Transactional Monthly Revenue. Serko uses this as a useful indicator of recurring revenue from Serko products, based on the monthly transactions and average revenue per booking, on a constant currency basis.

Serko Limited (NZX/ASX:SKO), a leader in online travel booking and expense management for business, today affirms its half-year results reported on 24 October 2019, including continued strong growth in its home markets of Australia and New Zealand and good progress establishing its travel and expense management solutions in the Northern Hemisphere.

Total Operating Revenue for the six months ended 30 September 2019 increased 29% to \$14.7 million from \$11.4 million in the same period last year. The result is in line with guidance of an increase of 20% to 40% for the full year.

A half-year net loss after tax of \$0.9 million is down from a profit of \$0.9 million in the same period a year ago. The result includes a \$0.6 million non-cash adjustment for the fair value remeasurement of the contingent consideration for the December 2018 acquisition of US-based expense management business InterplX. It also includes depreciation and amortisation charges of \$1.3 million. EBITDAF, which excludes these adjustments, was positive at \$1.4 million down slightly from the \$1.5 million in the same period a year ago.

Chairman Simon Botherway said: "We have made pleasing progress in the first half of the 2020 financial year. We remain the leading online business travel booking platform in the Australasian market and continue to build momentum in our global expansion."

OPERATIONAL REVIEW

Half-year recurring revenue rose 38% to \$13.3 million from \$9.6 million in the same period last year and reflected:

- A 20% increase in Travel platform revenue to \$9.2 million from \$7.7 million in the prior year, due to the conversion of customers onto new and higher-price Zeno contracts and a 4.5% increase in travel platform bookings to 2.2 million.
- A 238% increase in Expense platform revenues to \$3.0 million from \$0.9 million. This result includes a \$1.9 million contribution from InterplX, its first six-month contribution to Serko, and a 22% increase in Serko Expense revenue.
- Steady content commission revenue at \$0.8 million.
- A fall in services revenue as development activity focused on North American (NORAM) markets.

ATMR, an indicator of the future growth potential of Serko's annual recurring revenue, reached a peak of \$26.2 million during the period up 35% from \$19.4 million in the same period last year. Average Revenue Per Booking (ARPB) on recurring revenue was \$6.05 for the period.

Operating costs increased 46% to \$15.7 million from \$10.7 million in the same period a year ago as a result of increased head count, costs associated with the expansion into NORAM markets and the consolidation of InterplX. Meanwhile, total R&D costs increased by \$5.1 million over the prior period to \$8.9 million due to the company's investment into market requirements for new Northern Hemisphere territories.

Cash on hand as at 30 September 2019 was \$10.3 million, down from \$15.7 million at 31 March 2019 as the company invested \$5.5 million of its reserves into market development. This cash burn will continue in the second half as development work is accelerated to support new market expansion. Cash balances at 31

October 2019, post the primary capital raise were \$48.6 million. A further \$5 million in funding is expected to be raised from the Share Purchase Plan undertaken, which closed last week.

Serko Chief Executive Darrin Grafton said: "Serko has continued to grow revenue in our home markets thanks in no small measure to the uptake of Zeno.

"More than 1,300 corporate customers transacted on Zeno during the six-month period to 30 September 2019, while Zeno transactions increased by 200% over the same period last year. In September Zeno represented 13% of online bookings and has grown to 15% in October.

"In Australasia, growth in 'same corporate' bookings has softened over the past few months, which we attribute to a general slowdown in the Australian and New Zealand economies and declining business confidence. Despite this, Serko has grown corporate customers by 327 over the half and this user growth has offset the impact on Serko's total revenue growth. We continue to focus on global expansion, and this will assist Serko to mitigate any local market slow down. The impact of these trends continues to be monitored."

Mr Grafton said he expected transactions to grow in all markets in the second half of the financial year with the continued onboarding of new corporates as Serko's Travel Management Company (TMC) partners in North America complete user acceptance testing of Zeno and progress to pilot customers.

"We have invested heavily in our new Zeno platform for expansion into North America and, following our beta release of Zeno in September 2019, we are now processing live bookings in that market.

"Our efforts to grow the global adoption of our solutions received a considerable boost in October with the successful completion of an oversubscribed \$40 million primary capital raising announced on 24 October 2019, which included a material investment by NASDAQ-listed Bookings Holdings Inc, and the launch of a \$5 million Share Purchase Plan.

"The proceeds of the capital raising provides Serko with an exciting opportunity to accelerate the global rollout of Zeno and expand marketplace content. An extension of our partnership with Booking.com (also announced on 24 October 2019) will assist us with these efforts.

"Serko expects the expanded agreement with Booking.com to result in significant benefits for Serko's customers and Travel Management Company (TMC) partners by broadening and improving 'whole of journey' content, accelerating the global rollout of Serko Zeno, and increasing commissions to the TMC reseller community."

As noted in October, the expanded agreement with Booking.com is not expected to have a material impact on Serko's revenues in the current financial year to 31 March 2020, due to the phased development work required and a performance-based rollout plan for Booking.com's global business traveller customers. If achieved, as anticipated, during the 2020 calendar year, the expanded agreement is expected to result in a material uplift in Serko's revenue (via increased ARPB and transaction booking revenue) in the 2021 financial year and beyond.

Mr Grafton said the timing and extent of uptake by new corporates in Northern Hemisphere markets is unknown and subject to variables. Continued development of additional local content in these markets is expected to further increase bookings and support the migration of additional corporates to our platforms. Resources will be increased to match growing demand to support a successful customer experience.

“European markets are not expected to contribute materially in the current financial year (due to our prioritisation of the NORAM roll-out). However, a portion of the proceeds of the recent capital raising will be used to accelerate development of the European market, which is expected to result in increasing revenue for the 2021 financial year.”

OUTLOOK

“Serko continues to invest in its global expansion, specifically in North America and continental Europe. The capital raising and the expanded agreement with Booking.com will allow us to accelerate that expansion and assist Serko to achieve its medium-term aspirational target (announced at our Annual Meeting in August) of a \$100 million annualised revenue run-rate,” Mr Botherway said.

“Serko continues to expect Total Operating Revenue to grow 20% to 40% for the year ending 31 March 2020. As previously advised, currency fluctuations and the timing of customer onboarding will be key factors in determining our final result.”

Ends

For investor relations queries please contact:

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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. Serko is listed on the New Zealand Stock Exchange Main Board (NZX:SKO) and Australian Securities Exchange (ASX:SKO). Serko employs more than 200 people worldwide, with its headquarters in New Zealand, and offices across Australia, China, India, and the U.S. Visit www.serko.com for more information.

Note: all \$ amounts are New Zealand Dollars unless otherwise stated.