



Market Release

23 November 2016

Serko FY17 Half Year Results Announcement Unaudited Results for the 6 months ending 30 September 2016

Serko Limited (NZX:SKO) is pleased to announce its unaudited interim results for the six months to 30 September 2016. Highlights from the six-month period include:

- Unaudited trading revenue is up 10% over the previous corresponding six-month period ended 30 September 2015 (PCP).
- Serko Online transaction volumes increased by 17% over the PCP.
- Total Income from all sources including grants was \$7.6m for H1 FY17.
- Net loss before tax for the period has reduced to \$2.0m (a 39% decrease in loss over the PCP).
- EBITDA¹ loss for H1 FY17 has reduced to \$1.8m (a 44% decrease in loss over the PCP).
- Cash on hand as at 30 September 2016 was \$4.8m.

Financial Results

Serko's performance in H1 FY17 resulted in a Net Loss before tax of \$2.0m (H1 FY16 loss was \$3.4m). This represented an improvement of 39% (ie a decrease in Serko's loss) compared to the prior corresponding period in FY16. We expect to achieve positive cash-flow position early next financial year. Operating costs were down 7% over H1 FY16. Cost saving initiatives activated in late H1 FY17 will continue to provide benefits and a further reduction in the company's loss position in the second half (H2) of FY17. EBITDA¹ loss for H1 FY17 reduced to \$1.8m, a 44% decrease over the same period in FY16.

Total income from all sources, including Grants, was \$7.6m and overall trading revenue was up 10% on the prior corresponding period in FY16. Over 90% of revenue in H1 FY17 was derived from booking transactions and application licensing with the remainder derived mainly from system customisation work. Online bookings grew 17% over the prior corresponding period in FY16, however revenue growth was adversely impacted by the strong NZD vs the AUD, which accounted for over 50% of the difference between transaction growth (17%) and revenue growth (10%).

Cash reserves at 30 September 2016 were \$4.8m.

Performance Drivers

During H1 FY17 Serko concentrated on executing its 3-pronged strategy of growing its customer base, increasing average revenue per user (ARPU) and delivering market-leading technological innovations. On all three fronts Serko has made good progress, which further enhanced Serko's position as the leading online travel booking platform for business in the Australasian market.

Key performance drivers for the period include:

- The successful introduction of a wider range of 'content' to our TMC customers, including hotel room providers such as Expedia, to our platform. Serko benefits from additional revenues when these new sources of hotel content are booked by our users and thus assists us to achieve our aim of boosting ARPU. Whilst its early days,

¹ EBITDA is a non GAAP measure representing Earnings or Losses before Interest (net Finance income/cost), Tax, Depreciation, Amortisation and Impairments.

this initiative has resulted in a current 'attachment rate' of 4% of total travel bookings.

- The launch of a brand new predictive booking workflow for Serko Mobile users. This feature addresses the inefficiencies associated with a travel administrator making all travel bookings and puts the power of our predictive software booking technology into the hands of the travellers themselves. This new feature is assisting our channel partners to target new accounts.
- The launch of serko.travel, unveiled in late July, which gives smaller businesses with less than 150 employees a way to not only book and manage their company travel online but also benefit from many of our cost control, approval and reporting features as well as being Xero integrated. These customers also benefit from the services of a Travel Management Company representative (travel agent) if needed, all with no initial booking fees.

During H1 FY17 we also announced that we had signed an agreement with Sabre Corporation (SABR) to replace their proprietary online booking tool (Sabre Online) with a new tool based on Serko Online (Serko's Enterprise booking platform). Sabre is NASDAQ-listed travel technology company with a market capitalisation of over \$US 7 billion.

Booking transactions generated from our Enterprise customers are the core value driver for the business and these increased by 17% during the period through organic growth, despite some customer attrition that came as a result of our decision to migrate users from our Arnold system to our Serko Online solution. However, as a result of this migration, Serko has been able to fully decommission the Arnold platform and will realise further cost savings and productivity gains in H2 FY17.

Serko.travel is a new initiative and these bookings generate commission revenue from suppliers based on the total spend rather than a flat fee which is the predominant revenue source in the Enterprise product. Importantly these arrangements give Serko access to a share of the value of the entire booking and this assists us with achieving our aim of increasing ARPU. Our strategy to penetrate the SME market is through partnership arrangements with partners who already have relationships with small and medium businesses across Australia and New Zealand. Partners including Xero and 2degrees Mobile have been activated and are beginning to drive customer acquisition.

Helloworld and Flight Centre provide TMC support to serko.travel customers. Since launch, more than 800 small businesses in New Zealand have signed up. Serko intends to focus on the Australian market over the next six months.

Serko Expense, our expense management solution, experienced 9% growth in revenue largely as a result of the TMC referral program that was put in place at the beginning of the H1 FY17. We continue to make good progress integrating our travel and expense proposition with some significant product launches planned for H2 FY17, including the ability to submit expenses directly from Serko Mobile.

Looking forward for the second half of FY17

Serko has been advised by our Travel Management Company (TMC) partners of a pipeline of new customers expected to onboard onto Serko Online in the second half of FY17. We expect to achieve break-even early in FY18 and to record Serko's first profit in FY18. We are targeting a net cash balance of between \$3m-\$4m at 31 March 2017. Based on these projections, Serko does not anticipate any requirement for additional capital.

Serko will achieve this position by focusing on the following 6 initiatives:

1. Supporting our Enterprise reseller base who drive core revenues by onboarding new customers and adopting a broader range of Serko products which help to drive up ARPU.
2. Nurture, grow and seek out new strategic partnerships with companies like Sabre that are seeking leading edge travel booking and management technologies to replace incumbent solutions that do not have the comprehensive array of features that Serko offers. In doing so, Serko will grow its volume of transactions.
3. Continue to invest in R&D to ensure that Serko stays ahead of the market, which will include the release of a new door to door corporate online booking user interface during H2 FY17 which will be offered as a premium solution alongside the existing Serko Online product.
4. Expanding our reach to the small and medium market in Australia and New Zealand through marketing partnerships.
5. Controlling our cost base and ensuring that our resources are applied to those areas of the business that

represent the most attractive opportunity to generate shareholder value.

6. Build and maintain an exciting, vibrant corporate culture that attracts and retains the very best talent in the market place, creating a working environment that is enjoyed and celebrated by everyone everywhere.

The business remains 100% focused on transforming the way businesses – both large and small - 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 and sell our solutions.

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