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Market Release

24 October 2019

FY20 Preliminary Half Year Results

For the period ended 30 September 2019

Continued revenue growth of 29% against prior period; EBITDAF remained profitable, while Serko increased R&D investment for global growth

Serko Limited (NZX/ASX:SKO), a leader in online travel booking and expense management for business, today released draft summary results for the half year to 30 September 2019. This information is being released early to provide investors with Serko's most up-to-date financial results when considering whether to invest in the capital raising Serko announced to the market today.

These results are based on draft management accounts and are unaudited[1]. Serko's final half year results announcement, for the purposes of the NZX Listing Rules, is expected to be released on 20 November 2019.

Highlights for the six-month period are as follows:

- Total Operating Revenue[2] for the period ended 30 September 2019 at $14.7 million increased by 29% over the same period last year of $11.4 million. This is in line with revenue guidance of an increase of 20%-40% for the full year.
- Total Recurring Revenue[2] was $13.3 million, an increase of 38% over the same period last year and represented 91% of Operating Revenue.
- Total Income[2] from all sources, including grants, was $15.2 million increased 29% from $11.8 million for the same period last year.
- Net profit before tax (NPBT) for the period was a loss of $0.8 million. Prior period was a profit of

1 The FY20 Half Year Results to 30 September 2019 are unaudited, and have been prepared on the basis of Serko's management accounts. This FY20 half year results update is not a 'Results Announcement' for the purposes of the NZX Listing Rules and is provided for information purposes only. Final FY20 Half Year results are expected to be released to market on 20 November 2019 in accordance with the NZX Listing Rules. The preliminary half year results have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards, including IFRS 16 (Leases) adopted from 1 April 2019. The effect on NPBT as a result of the adoption of IFRS 16 is minimal. All accounting policies have been applied on basis consistent with those used in previous years.
2 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).

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$1 million.

- EBITDAF[3] for the period was $1.4 million. Prior period was $1.5 million.
- Travel booking platform transaction volumes for the period at 2.2 million increased by 4.5% over the same period last year.
- ATMR[4] reached a peak of $26.2 million during the period. Prior period was $19.4 million.
- Operating Expenses of $15.6 million was an increase of 46% over the same period last year of $10.7 million.
- 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.

Serko's revenues continued to grow in its home markets of Australia and New Zealand and good progress was made in establishing its presence in the Northern Hemisphere, while remaining EBITDAF profitable. The net loss after tax of $0.9 million includes $0.6 million related to the non-cash adjustment for fair value remeasurement of contingent consideration from the acquisition of InterplX and depreciation and amortisation of $1.3 million.

Further information is included in the investor presentation released to the market today, which includes the following:

- Recurring revenue increased by 38% due to the following:
  - Travel platform revenue increased by 20%, due to a combination of increased pricing resulting from the conversion of customers onto new Zeno contracts and increased transactions (total travel platform bookings up 4.5% over the same period last year)
  - Expense platform revenue includes contribution from InterplX acquisition of $1.9 million for the six month period where as in the prior period the amount was nil
  - Expense revenue related to Serko Expense increased 22%
  - Content commission revenue steady against prior period
  - Services revenue down on prior period as development focused on NORAM activation
- Operating Costs increased as a result of increased head count and costs associated with expansion into NORAM markets and includes InterplX operating costs in the period, whereas these are not included in the prior period.

3 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 the capital raise 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).

4 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.

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- Total R&D costs increased by $5.1 million over prior period due to investment into market requirements for new Northern Hemisphere territories

OUTLOOK

Serko Chairman, Simon Botherway, said: “We made pleasing progress in the first half of FY20 and we continue to be the leading online business travel booking platform in the Australasian market. We have invested heavily in the Zeno platform for expansion into the North American markets during the period. Serko now has live bookings in North America following beta release last month. We expect transactions to grow in the second half of the financial year with the continued onboarding of new corporates, as signed Travel Management Companies complete their user acceptance testing and progress to pilot customers. However, the timing of uptake by new corporates is unknown and subject to variables. Continued development of additional local content is expected to further increase bookings and support the migration of additional corporates.”

In Australasia, growth in ‘same corporate’ bookings has softened over the past few months, which we attributed 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 slowdown. The impact of these trends continues to be monitored.”

“European markets are not expected to contribute materially in FY20 (due to the prioritisation of the NORAM market roll-out). However, a portion of the proceeds of the capital raising announced today will be used to accelerate development of the European market, resulting in FY21 revenue gains.”

Serko continues to invest in its global expansion, specifically in North America and continental Europe, and today announced a capital raising to accelerate its global expansion, in which Booking Holdings will be a cornerstone investor in conjunction with signing an expanded agreement with Booking.com. Cash burn for the six month period was $5.5 million and cash burn is expected to continue for the second half as development work continues to support new market expansion."

Mr Botherway continued: “Serko retains its revenue guidance within the range of 20-40% Operating Revenue growth for the full financial year ending 31 March 2020. As previously advised to the market, currency fluctuations and the timing of customer onboarding will be key factors in determining the final result.”

Ends

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