

18 November 2020

UNAUDITED FINANCIAL RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2020

Serko investing for a recovery in global business travel markets

SUMMARY OF PERFORMANCE FOR THE PERIOD

- Total operating revenue¹ of \$5.1 million for the six-month period was 66% lower than the same period in the prior year of \$14.7 million following COVID-19 pandemic travel disruptions.
- Recurring product revenues¹ for the period were \$4.6 million compared to \$13.3 million in the prior period.
- Half-year total travel booking¹ volumes for the period were down 77%, being 23% of the volumes in the same period a year ago, but have since risen to 35% for October (New Zealand at 76% and Australia at 26%).
- The percentage of transactions occurring on our premium platform Zeno continues to increase, representing around 38% of online transactions in September, up from 25% of online transactions at the end of March 2020.
- Half-year total income¹ was \$8.5 million, down from the prior year's \$15.2 million.
- Net loss after tax for the period was \$10.1 million compared to a net loss of \$0.9 million in the prior period due to lower revenues and Serko investing in expansion into Northern Hemisphere markets ahead of an anticipated travel market recovery.
- EBITDA¹ for the period was a loss of \$6.7 million compared to a profit of \$1.4 million in the prior period reflecting reductions in transactions and investment in Northern Hemisphere expansion.
- Net cash burn averaged \$1.8 million per month for the six-month period, within the \$2 million COVID-19 cost saving cap set by the Company, as previously announced to the market.
- Cash balances as at 30 September were \$31.5 million. Following the recent capital raising, Serko presently has over \$90 million of cash on hand, positioning Serko well for an anticipated travel market recovery.

Serko Limited (NZX/ASX:SKO), a leader in online travel booking and expense management for the business travel market, today reports financial results for the six months to 30 September 2020.

Serko also reiterated its plans to move more quickly on the opportunities arising from the changing travel market. Last month's successful capital raising, which saw the Company raise \$67.5 million of gross proceeds, has positioned Serko to build to the future of the business travel industry.

FINANCIAL SUMMARY

Total revenue for the six-month period was \$5.1 million compared to the estimated range of \$4.5 million to \$5.0 million stated in the capital raising documentation. The result was down 66% from the \$14.7 million in the same period a year ago. This was primarily due to the impact of travel restrictions on the Company's core Australasian travel transaction volumes.

¹ For the definition of these measures please refer to page 5 of this release.

Travel platform revenue was down 77% and content commissions were down 75%. Total travel booking transactions for the period fell to 0.5 million from 2.2 million in the same period a year ago, down 77%.

Expense platform revenue was less affected than travel related revenue, down 33% compared to the prior period.

Total recurring product revenues reduced to \$4.6 million from \$13.3 million in the same period last year. Total income, which includes \$3.0 million of government COVID-19 related assistance and \$0.4 million of other grant income, was \$8.5 million compared to guidance of \$8.0 million to \$8.5 million. Total income posted in the same period in the prior financial year was \$15.2 million.

Half year net losses increased to \$10.1 million from a net loss of \$0.9 million in the same period last financial year reflecting the weaker revenue arising as a result of COVID-19 and the Company investing in the opportunities arising from the changing business travel market. EBITDAF losses were accordingly \$6.7 million down from a gain of \$1.4 million at the same period a year ago.

In the six months to the end of September, in line with guidance, the company burned an average \$1.8 million per month of its cash reserves. This spend was focussed on measures to maintain capacity and invest for an eventual recovery despite the prevailing low revenue environment. Serko ended the six-month period with cash balances of \$31.5 million. This figure was lifted by approximately \$65 million in new capital (net of issue expenses) following a successful capital raise. Serko has a forecast cash balance of over \$90 million at the end of November 2020.

Serko Chair Claudia Batten said: “As we signalled last month, the COVID-19 pandemic is reshaping all parts of the business travel industry, from the suppliers of business travel content and services through to the needs of the business traveller.

“Amid this disruption our Travel Management Company (TMC) resellers and partners recognise the pivotal role Serko’s solutions and relationships can play in managing the disruption and preparing for the recovery. Many have requested accelerated timetables to onboard new customers, deliver new features and expand existing partnerships, while many others are considering or are planning to follow suit.

“The capital recently raised, combined with our existing cash balances, position us well to scale-up to meet this demand and execute on our strategic priorities, positioning Serko for growth when business travel normalises,” Ms Batten said.

Serko Chief Executive Darrin Grafton said: “We consider that Serko’s prospects within the travel industry remain significant over the medium to long-term, notwithstanding the currently known impacts of the COVID-19 pandemic, and we remain confident in the recovery of travel over time. We are committed to supporting our partners through this period of change and accelerating our drive to transform business travel and expense management globally.

Mr Grafton said “Serko’s strategic priorities for the coming year include:

- accelerating the development of, and globally scaling up, Zeno;
- supporting the increased demand for customer and reseller onboarding to drive volume across all markets, particularly in Europe and North America;
- expanding the breadth and depth of content channels across all markets, responding to new and changing business traveller needs; and
- enhancing the customer experience and functionality for changing market requirements.

“Through our capital raising, our shareholders have backed Serko to execute on this plan. We have now begun to plot a detailed course and are well advanced in hiring the software engineers to deliver on

these goals. In addition, we are growing our support functions to meet the needs of a growing global operation. It is very early days, but we are excited by the task ahead of us and the potential rewards.

“We will consider small acquisitions and/or investments to assist Serko to accelerate execution of these strategic priorities, where it makes sense to do so,” Mr Grafton said.

MARKET PERFORMANCE

Mr Grafton said: “The performance of the business for the half year period was in line with the guidance given at the time of the capital raising.”

Australasia

Australasian booking volumes reached their low point in April, at just 9% of the same month in the prior year and have been volatile amid the lifting and then the reimposition of travel restrictions on both sides of the Tasman. Booking volumes for the six month period were 23% of the prior year volumes and 33% for the month of September.

Australasian travel booking volumes have further improved to 35% for October 2020 of the prior year volumes. New Zealand TMC resellers volumes were 76% of the prior period benefitting from the lifting of domestic travel restrictions, while Australia is at 26% of the prior period with travel restrictions still in place. As travel restrictions progressively ease, the anticipated recovery of internal, domestic travel, particularly in Australia, is expected to be the principal driver of transaction volumes and revenues returning to more normalised levels. In the 2020 financial year, domestic travel in both Australia and New Zealand accounted for approximately 93% of Serko’s booking revenue. Trans-Tasman and international travel account for the remainder of booking revenue.

Notwithstanding the disruptions to key markets, we are pleased with the overall trends in the business. Notably, the percentage of transactions occurring on our premium platform Zeno continue to increase, representing around 38% of online transactions in September, up from 25% of online transactions at the end of March 2020.

Meanwhile, we continue to onboard new customers from our TMC resellers (including Flight Centre & Orbit). The number of corporates transacting in October 2020 were over 4,000, up from the lows of 1,725 transacting in April 2020. Prior to COVID-19, over 6,800 corporates were transacting on Serko’s platform.

North America

Travel within North America remains very subdued as a result of the pandemic, however, the North American market provides a significant growth opportunity over time. Serko continues to invest in the Zeno platform for expansion within North America, expanding its reseller base in anticipation of a resumption of travel.

Key achievements in the half year include tailored North American content and integrations for resellers; a Zeno Expense reseller partnership with the buying group Omnia Partners; and the addition of four new TMC resellers over the half year period, bringing the total to nine resellers. Serko is now in the process of activating these new partners.

As signalled in October the Company is also in the process of negotiating a large direct contract with a US Fortune 500 company².

² There is no guarantee these negotiations will result in a signed agreement.

Booking.Com

Serko's partnership with Booking.com continues to offer growth opportunities for Serko, particularly among small and medium sized businesses. Notwithstanding the COVID-19 pandemic, the potential large-scale roll-out gives Serko the opportunity to access to a much larger addressable market as travel activity recovers over time.

The new Booking.com for Business platform powered by Zeno went live in May 2020, with pilot programs implemented across the United Kingdom and Ireland. A pilot was also launched in Germany in early September 2020.

It is expected that new customers wishing to set-up a business account on the Booking.com website will be directed to the new Booking.com for Business platform powered by Zeno in select Northern Hemisphere markets imminently.

It is expected that customers will be able to progressively sign-up to the Booking.com for Business platform powered by Zeno as the product is made available in additional markets.

Serko and Booking.com continue to have a collaborative partnership, with both parties working to bring a best-in-class business travel tool to customers globally. Serko is progressively scaling-up to achieve this.

OUTLOOK

Ms Batten said: "Serko's outlook was unchanged from that stated in the October 2020 capital raising documents.

"We are well positioned for growth as business travel recovers. The profile and timing of that recovery, however, remains uncertain. As a result, we are unable to forecast our likely operating revenue for the 2021 financial year with any certainty," Ms Batten said.

"Serko continues to assume in its forecasts that travel volumes will be in the range of 40-70% of pre-COVID levels by March 2021. The extent of travel restrictions in place within Australia and New Zealand will be determinative of where, within this range, actual travel volumes fall.

"Serko continues to target an average monthly cash consumption of between \$2 million and \$4 million during the remainder of FY21 and through to FY22. We continue to invest in growing our global footprint, managing investment based on travel resumption and achievement of key performance metrics (including the Booking.com opportunity and NORAM customer onboarding)."

EXECUTIVE UPDATE

Mr Grafton said: "I also announce today that Chief Financial Officer, Susan Putt, has signalled her intention to transition out of the Company no later than the end of May 2021.

"We will shortly commence a comprehensive search for a successor and will utilise her notice period to ensure an orderly succession plan.

"Susan has played a critical role in the business over the last four years of Serko. She feels it is time to open a new chapter of her career and we are sorry to see her go but wish her well.

"I sincerely thank Susan for the guidance and contribution she has brought to me and Serko over her time with us," Mr Grafton said.

Ends

This announcement has been authorised for release to NZX and ASX by:

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About Serko

Serko is a leader in online travel booking and expense management for the business travel market. 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 235 people worldwide, with its headquarters in New Zealand, and offices across Australia, China, and the U.S. Visit www.serko.com for more information.

Important notes:

Non-GAAP (generally accepted accounting practices) financial measures do not have standardised meanings prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Non-GAAP financial information included in this release has not been subject to review by the auditors.

Non-GAAP measures are used by management to monitor the business and are useful to provide information to investors to assess business performance. A reconciliation of Net Profit to EBITDAF can be found in the Annual Report and Investor Presentation dated the same date as this announcement.

- **Total operating revenue** (a Non-GAAP measure) is revenue excluding income from grants and finance income, while **total income** includes grants.
- **Average Revenue Per Booking (ARPB)** is a non-GAAP measure. Serko uses this as a useful indicator of the revenue value per travel booking. It is calculated by taking Recurring product revenue divided by the total number of bookings.
- **Recurring product revenue** is a non-GAAP measure and is the recurring revenue derived from transactions and usage of Serko products by contracted customers. It excludes revenues from customised software development (services revenue).
- **R&D (Research & Development) costs** is a non-GAAP measure representing the internal and external costs related to R&D both expensed and capitalised.
- **Operating Costs** is a non-GAAP measure which excludes costs relating to taxation, interest, depreciation, and amortisation charges.
- **EBITDAF** is a non-GAAP measure representing Earnings Before the deduction of costs relating to Interest, Taxation, Depreciation and Amortisation and Fair value remeasurement of contingent consideration.
- **Total travel bookings** include both online and offline transactions.

All dollar amounts are New Zealand dollars unless otherwise stated.