

Market Release

24 June 2020

Audited Financial Results for the Year Ending 31 March 2020

Corporate travel and expense management leader Serko (NZX/ASX:SKO) today reported its results for the financial year ended 31 March 2020.

Ms Batten, Serko Acting Chair, said: “The first three quarters of the financial year ended 31 March 2020 were characterised by monthly revenue growth and the achievement of a number of key milestones. However, Serko’s performance was impacted in the fourth quarter of the financial year as the Covid-19 pandemic became widespread, significantly affecting booking volumes. This resulted in an adverse impact on the full-year result.”

“Government responses to the pandemic worldwide, including lockdowns and the suspension of all non-essential travel, continue to have a material adverse effect on booking transaction volumes on Serko’s online travel booking platforms, which generate the majority of Serko’s revenue.”

“Clear evidence of a pattern of declining booking activity became apparent in mid-February 2020 and this was followed by a precipitous decline in March 2020 as lockdown measures were implemented. At its lowest point during the financial year in March 2020, daily booking volumes were down in excess of 90% compared to similar days in March 2019.

“In response to the operational and economic impacts of Covid-19, Serko has reduced cash burn and re-prioritised strategic initiatives to position the business for the materially changed operating environment. The implementation of these initiatives was largely undertaken after the balance date.

“It should, however, be noted that Serko has carefully chosen to retain resource and capacity on key growth initiatives to ensure we are well positioned to participate in the recovery of corporate travel”, said Ms Batten.

The Serko Board has exercised judgement on a number of important areas in the Income Statement and Statement of Financial Position and we draw your attention to the commentary in this release, the Financial Statements themselves and the Notes to the Financial Statements for more detailed explanations.

Summary of FY20 Performance:

- Total Operating Revenue¹ rose 11% to \$25.9 million, up \$2.5 million from the prior year.
- Recurring Product Revenues² rose 16% to \$24.1 million and Total Income (including grants) increased 9% to \$26.8 million.
- Travel booking transactions grew 2% on the previous year.
- Peak Annualised Transactional Monthly Revenue (ATMR)³ at the end of February 2020 (historically the month with the highest average daily transaction volume) was up 6% to \$27.5 million from \$26.0 million in February 2019, and subsequently materially declined in March 2020.
- Total Operating expenses⁴ increased by 59% to \$37.1 million, reflecting investment for our planned international expansion, including a net increase of 60 people.
- Research & Development (R&D)⁵ costs increased by 48% to \$13.6 million representing the significant investment in platform development for expansion into new markets and the delivery of

white-label platforms. Of the \$13.6 million of R&D costs, Serko capitalised \$11.0 million, up \$4.2 million from the prior year.

- Net loss after tax for the year was \$9.4 million, due to increased operating expenses.
- EBITDA⁶ declined \$8.7 million to a loss of \$6.1 million, down from \$2.6 million profit in the prior year.
- Cash balances of \$42.4 million as at 31 March 2020 included the net funds received from the 2019 capital raise of \$43.2 million. Cash burn for the year was \$16.5 million.

Other notable developments during FY20:

During the financial year, Serko entered into an agreement with Booking.com to supply a 'white-label' version of our Zeno booking tool for Booking.com, targeting its business customer base internationally. The 'Booking.com for Business' version of Zeno is currently in pilot phase and is expected to be rolled out to additional Northern Hemisphere markets following achievement of agreed performance targets.

Booking Holdings (owner of Booking.com) also participated in Serko's successful oversubscribed capital raising of \$45 million (\$43.2 million net of costs), completed in late 2019.

Ms Batten said: "This capital raise was intended to provide funding for Serko's planned expansion into new markets. Although we did not anticipate an event as catastrophic as Covid-19, the Serko Board has always maintained a prudent approach to balance sheet management. By raising additional capital, the company's strong cash position has provided a comfortable level of liquidity that meant we have had no requirement to raise capital in distressed circumstances."

"This has allowed us to maintain our operating capacity and retain our key people to best position Serko when travel volumes recover."

"We have however responded to the decline in activity and the uncertainty of the future environment by reducing costs across all expense categories to target a maximum cash burn average of no more than \$2 million per month."

SUMMARY FINANCIAL RESULTS

Revenue:

Total Operating Revenue for the year to 31 March 2020 rose 11% to \$25.9 million from \$23.4 million in the same period a year ago, substantially lower than our initial guidance range of 20%-40% for the year. We revised revenue expectations to the low end of the range on 25 February 2020 and then abandoned guidance completely on the 16 March 2020, in both cases due to the effects of Covid-19.

Under IFRS15 (Revenue from Contracts) Serko records revenue from its portfolio of contracts with reference to actual transactions, forecast transactions and minimum contracted commitments. Serko has agreed to a number of changes to contracts as a result of the impact of Covid-19 on the entire industry, this includes changes to schedules of contracted minimum revenues. This has had the effect of reducing the revenue that Serko expected to record in the current year. The Board has also made decisions with respect to Expected Credit Losses (IFRS9) that reflect the prevailing level of uncertainty in the travel industry.

Total income from all sources for the year to 31 March 2020 was up 9% to \$26.8 million from \$24.6 million in the prior year.

Recurring Product Revenues increased 16% during the year, lifted by a full year contribution from InterplX and organic business growth prior to the Covid-19 outbreak. Peak ATMR at the end of February 2020, historically a forward-looking indicator of recurring revenues, stood at \$27.5 million up over 14% from a peak of \$26.0

million in the same period of the prior year. By the end of March ATMR had fallen to \$15 million based on the drop that occurred within the month, ending the year with travel booking revenues up only 2% to \$16.3 million from \$15.9 million in the prior year. Subsequently ATMR has dropped further post year-end.

Serko Expense platform revenues were up 115% to \$5.8 million for the financial year from \$2.7 million reflecting the full year contribution of the InterplX acquisition of \$3.7 million versus \$0.9 million for a single quarter for FY19. Excluding InterplX, Serko Expense platform revenues were up 16% at \$2.1 million from \$1.8 million the prior year.

Services revenue and grant income were down 33% on the same period a year ago, reduced to \$1.8 million due to Serko's development resources being directed toward product development for new markets. Supplier commissions revenues declined marginally by \$111,000 (7%) to \$1.4 million.

Expenses and Investment Activity:

Operating costs increased 59% to \$37.1 million reflecting a full-year of InterplX operating costs and the scale-up of our international presence. Costs included \$4.7 million non-cash costs relating primarily to depreciation, amortisation, final fair-value adjustment related to the issue of the final tranche of Serko shares for the InterplX acquisition and share based payments.

Serko has capitalised \$11 million of development costs for FY20, compared to \$6.7 million in FY19. Total R&D at \$13.6 million was 53% of net operating income compared to 39% in the prior year. Although there remains considerable uncertainty as to the future operating environment, the Serko Board remains of the view that this investment will produce an acceptable commercial return in the future.

Cash flow and Cash Balance:

Serko remains well funded following the completion of an oversubscribed capital raise of \$45 million in November 2019, with cash balances up from \$15.7 million in the prior year. Net funds received after capital raising costs were \$43.2 million. Excluding these funds, Serko's net cash burn for the year, including capitalised development, was \$16.5 million. Cash balances at 31 March 2020 were \$42.4 million.

Earnings:

Net loss after tax for the year was \$9.4 million, down from an FY19 profit of \$1.6 million and EBITDAF fell to a loss of \$6.1 million from a profit of \$2.6 million in the same period a year ago.

AUSTRALASIAN MARKET UPDATE

The New Zealand and Australian markets together generated a majority of total bookings on our platform, and travel booking revenues, during the financial year. The majority of these transactions were domestic bookings.

During the financial year we achieved year-on-year booking growth each month through to February 2020. This was despite softer economic conditions in Australia in the first half, followed by the Australian bushfires negatively impacting corporate travel. Serko continued to grow customer numbers during the financial year with the number of corporates transacting through the travel platforms increasing by over 700 (comparing February 2020 to February 2019).

We also saw a significant transition to the premium Zeno product from Serko Online during the period. Zeno was carrying approximately 25% of transactions across our platforms at the end of the financial year up from approximately 6% of transactions at the beginning of the year.

Zeno is now being used by 42% of corporate customers in Australia and New Zealand, up from 9% at the beginning of the year.

In February a peak of over 24,000 bookings were processed in a single day (up from a peak of 21,000 in the same month in the prior year). However, with the gradual decline in bookings becoming evident in mid-February, and the subsequent rapid decline in March 2020, total bookings for the entire financial year were up only 2% over the prior year.

Impacts of Covid-19

The Covid-19 pandemic and related travel restrictions resulted in an observable declining trend in February followed by a dramatic reduction in March 2020. By the end of March 2020, daily transaction volumes had declined by ~90% compared to the equivalent days in March 2019.

We currently believe that the Australian and New Zealand domestic and trans-Tasman travel markets, which presently generate most of our revenue, are poised to recover more quickly than international routes outside of Australasia.

Travel volumes have gradually started to recover in May 2020 with the easing of domestic travel restrictions in New Zealand. We are yet to see any material increase in domestic travel in Australia due to the significant travel restrictions that remain in place. Essential travel in Australia has, however, continued and we continue to manage a small number of Australian transactions across our platforms.

During the first three weeks of June 2020, over 3,200 corporate customers have made a travel booking as New Zealand moved down to Level 1 restrictions. This has resulted in daily booking volumes on Serko's platforms steadily increasing in June 2020 to about 25% of the daily booking volumes in June 2019 (from a low of 9% in April).

Although the outlook is highly uncertain we anticipate our core Australasian markets will be operating at 40% - 70% of their pre-Covid-19 activity levels by March 2021. Beyond that we are taking a conservative approach to growth as most industry reports indicate a slow, and largely unpredictable, return to full pre-Covid-19 activity levels.

We have been working proactively with our travel management partners to support their recovery. In some instances this has required amendment of contractual obligations that has adversely impacted our previously noted FY20 revenue recognition.

NORTH AMERICAN & EUROPEAN EXPANSION UPDATE

North America

During the financial year we invested heavily in our Zeno platform for expansion into North America. Transactions commenced in this market following the transition of several travel management resellers from pilot phase to onboarding their first corporate customers. As expected, revenue numbers from this market were not significant for the financial year.

Travel management reseller onboarding slowed materially in the last quarter due to the impact of Covid-19 and we expect further corporate onboarding to be slow until travel resumes in that market.

Transactions have effectively ceased due to the lockdown restrictions in this market.

Despite the impacts of Covid-19, Serko has signed an additional three resellers since 31 March 2020. Development work will continue in the market, expanding local air, rail and hotel content as well as completing reseller integrations to support the migration of additional corporates on to our platforms.

United Kingdom & Europe

In the United Kingdom and Europe we have been undertaking the development work required for the launch of 'Booking.com for Business', a white label version of Zeno to be offered internationally to Booking.com's small and medium-sized enterprise (SME) customers.

The impacts of Covid-19 delayed the beta-launch of 'Booking.com for Business' from March 2020 to May 2020. However, initial bookings have been completed in the United Kingdom and Ireland and the roll-out in these two markets will continue for most of FY21. Additional key markets will be developed and 'localised' (e.g. for content and language) as we progressively roll-out the solution across Europe.

Impacts of Covid-19

Serko's business plans in North America and Europe are not contingent on the revival of long-haul international travel. In excess of 95% of the revenue opportunities we were pursuing prior to the pandemic were domestic or intra-regional bookings and the total addressable market remains significant.

Domestic travel in the United States (US), and domestic and cross-border intra-regional travel to nearby countries within Europe, are expected to be the first segments of these travel markets to recover post-Covid-19.

SERKO EXPENSE PLATFORM INITIATIVES

As noted above, the Serko Expense platform has provided solid revenue growth during the financial year and represents an important diversification from travel revenues for Serko.

In North America the development work required to bring the InterplX expense platform in-line with the Zeno user experience continues and we expect to launch the new Zeno Expense offering in Q3 FY21, bringing greater scalability and a richer set of features to our combined Travel & Expense offering.

In Australasia a direct marketing campaign and activation of a reseller incentive programme across our travel management company partners, along with the introduction of a rapid implementation programme that materially reduces our set-up time to onboard new accounts, is resulting in an increased pipeline of Serko Expense platform opportunities.

COST MANAGEMENT INITIATIVES IN RESPONSE TO COVID-19

Our immediate response to the Covid-19 pandemic was to introduce measures to look after our people. All business travel was halted. We moved to working from home and enforced rigorous social distancing for the few who needed to be in our offices.

These initiatives were rapidly followed by a cost reduction programme designed to preserve our strong cash balance position and target an average cash burn rate of no more than \$2 million per month through to the end of FY21. We balanced cost savings with investment in core areas to maintain our capability to deliver on our key growth initiatives.

This cost reduction programme saw the removal of non-essential expenditure, scaled down operating expenses (such as cost of sales and hosting), as well as the rationalisation of our contractor resources (including the conversion of some of this resource to full-time employment). Serko has aimed to keep as many people employed during this period as possible, as we recognise the personal impact to employees if they were to lose their jobs and the cost to the business of losing skilled people, especially as our ambition to grow in new markets remains undiminished.

We acknowledge and thank the various Government programmes and subsidy schemes that have assisted in the retention of our people during this challenging period. We accessed \$1.6 million of Government-backed Covid-19 relief schemes to date across the countries in which Serko operates, including receipt of \$871,670 in salary subsidies from the New Zealand Government.

In addition, employees agreed to take a salary reduction for three months from May 2020, and the non-executive directors agreed to either take a reduction in their directors' fees or receive a portion of their directors' fees in shares for the first three months of FY21.

BUSINESS TRAVEL OUTLOOK

The rate of return to business travel will vary by region and type of trip (i.e. domestic, regional, long-haul international). Volumes are very difficult to model. Travel Management resellers are operating with fewer human resources, creating opportunities for automation and technology solutions. Additionally, we are seeing greater cost management by corporations and a focus on traveller wellbeing, duty of care obligations and change management. We are actively assessing changes in corporate and traveller needs to ensure that we can support the market, our customers and our growth as the industry recovers.

FY21 OUTLOOK

We consider the business is well positioned for growth when trading conditions improve and the travel industry starts to recover:

- We occupy a strong market position in Australasia, with the majority of our transactions being domestic and Trans-Tasman in our home markets. There remains a pipeline of new customers to be onboarded from our existing reseller partners.
- We are focussing predominantly on domestic travel within North America, where we continue to add resellers to our platform and continue development work to localise content in that region.
- 'Booking.com for Business' white-label is now live in the United Kingdom and Ireland, and our agreement with Booking.com presents an opportunity to continue to expand use of the Zeno booking tool internationally.
- We have a strong balance sheet and ongoing commitment to investment, which will benefit existing and prospective customers.
- We have retained resource and capacity on key growth initiatives.



We believe these factors position us well to continue to prosper in our home markets and to roll-out our products globally as confidence returns to corporate travel markets.

Timing, however, remains uncertain. As a result, we are unable to forecast our likely operating revenue for the 2021 financial year with any certainty.

As at 31 May 2020, Serko had net cash and cash equivalents of \$39.9 million. We believe these cash resources, at the current rate of cash burn, will be sufficient to see the company through to cash flow breakeven again should our anticipated recovery scenario be achieved.

We will continue our rigorous focus on cash flow throughout the remainder of FY21, targeting an average monthly cash burn of no more than \$2 million per month, to conserve cash reserves.

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.

¹Total Operating Revenue (a Non-GAAP measure) is revenue excluding income from grants and finance income, while Total Income includes grants.

²Recurring product revenue (a Non-GAAP measure) is the recurring revenue derived from transactions and usage of Serko products by contracted customers. It excludes revenues from customised software development (services revenue).

³Peak ATMR is a Non-GAAP measure representing Annualised Transactional Monthly Revenue. Serko uses this as a useful indicator of recurring revenues from Serko products, based on the monthly transactions and average revenue per booking (for its travel platform revenue) and monthly active user charges (for its expense platform revenue). This is calculated on an annualised basis on a constant currency basis based on the daily weekday average multiplied by standard 260 weekdays in a year. Peak ATMR month was February for both 2019 and 2020 financial years. ATMR has subsequently been materially adversely affected following the impacts of Covid-19.

⁵ Research & Development (R&D) costs is a non-GAAP measure representing the internal and external costs related to R&D both expensed and capitalised.

⁴Operating expenses is a Non-GAAP measure which excludes costs relating to taxation, interest, depreciation, and amortisation charges.

⁶EBITDAF is a Non-GAAP measure representing Earnings Before the deduction of costs relating to Interest, Taxation, Depreciation, Amortisation and Fair value remeasurement on contingent consideration. Serko uses this as a useful indicator of cash profitability.

Note: all dollar amounts are New Zealand dollars unless otherwise stated.

For and on behalf of Serko Limited by the Board.

Ends

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About Serko



Serko is a market leading travel and expense technology solution in Australasia, used by over 6,800 corporate entities. 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, and the U.S. Visit www.serko.com for more information.