

Market Release

19 May 2021

Audited Financial Results for the Year Ending 31 March 2021

Serko (NZX/ASX:SKO) today reports financial results for the year to 31 March 2021, a period when the Covid-19 pandemic severely disrupted travel markets globally and constrained demand for the company's market leading travel and expense management solutions.

However, by the end of the year, Serko had experienced improving travel booking volumes across its core Australasian business and made good progress positioning the company for an expected recovery in its Northern Hemisphere markets.

Serko Chair Claudia Batten said: "The Covid-19 pandemic has caused enormous disruption to international travel markets and Serko's business, with revenue from all regions falling sharply during the 2021 financial year.

"Despite this uncertainty – and thanks to the support of shareholders who took part in an oversubscribed \$67.5 million capital raise in October 2020 – Serko has strategically chosen to retain resources and capacity in order to invest in key growth initiatives. Consequently, the company is well positioned and is participating in the recovery of corporate travel markets around the world.

"We occupy a strong market position in Australasia, with most of our transactions being domestic travel. As the pandemic has been contained, these markets have recovered from the near standstill experienced at the beginning of the financial year.

"In April 2020 booking volumes reached a trough, representing just 11% of the volumes recorded in the same month of 2019 - a year unaffected by Covid-19 and the benchmark Serko is using to assess the progress of the recovery. It is noted when comparing financial periods that transaction volumes in the last quarter of FY20 started to become adversely affected by Covid-19-related travel restrictions.

"By the last month of the financial year (March 2021) volumes had recovered to 73% of the March 2019 volumes and by April 2021 had risen further to represent 84% of the April 2019 volumes. Importantly the March result was ahead of market guidance that our core Australasian markets would be operating at 40-70% of their pre-Covid-19 activity levels by the end of our 2021 financial year.

"We are pleased with the recovery in booking volumes. But we recognise the unpredictable nature of this recovery and the potential for public health conditions in our core markets to reverse the gains.

"Serko has been investing to grow in new markets outside of its Australasian markets to become a significant global business. Serko's business plans in the Northern Hemisphere 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 even in recovery remains significant.

"Recovery in these Northern Hemisphere markets has been subdued. Persistent travel restrictions have limited bookings, while ongoing staff furloughs at our Travel Management Company (TMC) partners has limited the

onboarding of new customers during the period. However, just as we have seen in Australasia, we believe these domestic and intra-regional markets will lead a broader recovery in travel activity particularly as mass vaccination programmes are completed.

"A key project to participate in the recovery and begin to realise our potential in new markets has been the partnership with Booking Holdings, which includes the supply of the Zeno platform for Booking.com's small and medium enterprise (SME) solution, 'Booking.com for Business'. As we announced in late March, we have begun to transition existing 'Booking.com for Business' customers to the new platform, a process that is due to finish by the end of July 2021.

"The new Booking.com for Business platform is now being rolled out globally as additional languages and regional content are added. As previously announced, subject to the recovery in relevant markets, the partnership is expected to make a material contribution to revenues in the 2022 financial year.

"Serko is grateful for the support we have received through this challenging period. We acknowledge and thank the governments in the territories we operate for the programmes and subsidy schemes that have assisted us to retain our people and continue to invest for the future," Ms Batten said.

"We also thank our dedicated employees who supported the company and agreed to take a small salary reduction for three months from May 2020. The team has continued to rise to the challenges we've faced this year while continuing to make a huge effort for the company. Their efforts have been nothing short of exemplary.

Serko Chief Executive Darrin Grafton said: "The dedication of the Serko team this year has been inspiring. Despite the significant personal and professional challenges of Covid-19, the team has chosen to look through the current travel market turmoil and dedicated themselves to Serko's vision of transforming business travel and expense management.

"It is this spirit that saw Serko named the PwC Hi-Tech Company of the Year where we were praised for the company's ethos, culture and diversity. It is this same commitment that has underpinned shareholder support for the company and our inclusion in the benchmark NZX50 index in June 2020.

"We are delighted with the progress we have made and the potential for the company as we transition to a future when freedom of movement is less constrained."

SUMMARY FINANCIAL RESULTS

- Total Income (including grants) for the year was \$16.9 million. Total Operating Revenue¹ was \$12.4 million, down 52% against \$25.9 million in the prior year, heavily impacted by Covid-19.
- Recurring Product Revenues² declined 53% to \$11.3 million.
- Total travel booking volumes fell 63% against the 2020 financial year, but after reaching a trough in April 2020 have steadily recovered and for the month of March 2021 were 73% of volumes for March 2019 (which was unaffected by Covid-19).
- Peak Annualised Transactional Monthly Revenue (ATMR)³ for the current financial year was \$17.2 million for March 2021, down 37% from \$27.5 million in February 2020 (pre Covid-19 peak).
- Total Operating Expenses increased by 21% to \$44.9 million from \$37.1 million in the prior year, reflecting investment for our planned international expansion, including a net increase of 54 people to 287 full-time equivalent staff (FTE).
- Research & Development (R&D)⁴ costs decreased by 22% to \$10.6 million.

- Net loss after tax for the year was \$29.4 million, due to increased operating expenses and reduced revenue. EBITDAF⁵ declined by \$16.2 million to a loss of \$22.3 million, from \$6.1 million loss in the prior year.
- Cash balances and short term deposits of \$80 million at 31 March 2021 included the net funds received from the 2020 capital raise of \$65 million. Cash burn for the year was \$27.5 million equating to an average monthly cash burn of \$2.3 million.

Covid-19 disruptions to international travel markets saw Total Income from all sources for the year to 31 March 2021 fall 37% to \$16.9 million from \$26.8 million in the prior year.

A 52% fall in Total Operating Revenue¹ to \$12.4 million from \$25.9 million in the prior year - due largely to a 53% fall in recurring revenues - was partially offset by \$3.4 million of Covid-19 subsidies from governments across the territories in which Serko operates and \$1 million in Research and Development grants.

Peak Annualised Transactional Monthly Revenue (ATMR)³ for March 2021, a forward-looking indicator of recurring revenue, was \$17.2 million. This was down 37% from \$27.5 million in February 2020 (pre Covid-19 peak) and up 202% from the low of \$5.7 million in April 2020.

Total Operating Expenses increased by 21% to \$44.9 million from \$37.1 million in the prior year. This investment included a net increase of 54 people to 287 full-time equivalent staff (FTE). Research & Development (R&D)⁴ expenditure was \$10.6 million, down 22% from the prior year, reflecting the reprioritisation of development resources with the onset of Covid-19. However, the figure still represents a significant investment into platform development for expansion into new markets and the delivery of white-label platforms.

The net loss after tax for the year was \$29.4 million, wider than the prior year's net loss after tax of \$9.4 million, with the fall reflecting the Covid-19 travel disruptions and increased expenditure. Accordingly EBITDAF⁵ losses increased to \$22.3 million from a loss of \$6.1 million in the prior year.

BALANCE SHEET AND CASHFLOW

Serko is well funded. Cash balances and short term deposits at 31 March 2021 were \$79.9 million, up from \$42.4 million in the prior year, thanks to the capital raise and careful management of our costs and investment programmes. Net funds received after capital raising costs were \$65 million. Over the 2021 financial year we averaged a monthly cash burn of \$2.3 million, a figure well within the \$2 million to \$4 million guidance given in October 2020 during the capital raise. This was revised from a first half target of less than \$2 million average cash burn per month following Board approval to continue to invest for growth opportunities, assuming an eventual recovery in corporate travel.

AUSTRALASIAN MARKET UPDATE

The Covid-19 pandemic and related travel restrictions resulted in booking volumes beginning to soften in February 2020 with the trend accelerating precipitously through the following month to reach a floor in April 2020. However, we have been encouraged by the steady recovery in recent months.

The recovery in volumes through our New Zealand TMC channel has outperformed Australia's, with travel volumes in New Zealand rebounding strongly in the final month of the financial year to 149% of March 2019 volumes. This increase was due to the onboarding of new customers by our TMC partners while New Zealand also endured less wide-spread lockdowns than Australia.

Reflecting these trends, revenue from New Zealand sources for the 2021 financial year fell less than Australian revenues. New Zealand revenue fell 13% to \$2.2 million from \$2.5 million in the same period a year ago, while Australian sourced revenues fell by 59% to \$7.5 million from \$18.2 million.

By the end of the financial year Australian TMC volumes had recovered to 62% of March 2019 from a low in April 2020 when travel volumes were just 11% of the same month in 2019. With the recent formation of the trans-Tasman bubble from the end of April 2021 we expect this trend to continue, although it is reasonable to expect further periodic short-term lockdowns.

We made further progress in the transition of customers to the premium Zeno product from Serko Online during the financial period. Zeno was carrying approximately 45% of transactions across our platforms for March 2021, up from approximately 25% of transactions for March 2020. Zeno was being used by 58% of corporate customers in Australia and New Zealand for March 2021, up from 42% for March 2020.

We have been working proactively with our TMC partners to support their recovery. In some instances, this has required the amendment of contractual terms and this has adversely impacted our ability to recognise revenue from contractual minimums.

The region has made good progress on travel recovery and with the planned vaccination programme we expect corporate travel in the region will make a progressive recovery throughout the current financial year. Our best estimate is for a full recovery in the 2023 financial year, although this outlook is still subject to considerable uncertainty.

What is clear, however, is that risk and cost management are the key priorities for organisations as they return to travel. We have introduced a number of product capabilities in Zeno to address the challenges of post-pandemic business travel, including detailed airline and hotel safety information, Covid-19 testing and vaccination requirements and supporting government contact tracing requirements for new bookings.

GLOBAL EXPANSION UPDATE

Booking.com For Business Update

During the financial year we have invested to scale our Zeno platform to accommodate the accelerated migration of Booking.com business customers onto the upgraded 'Booking.com for Business' platform, following successful pilots conducted throughout 2020.

We have localised the language and user interface to enable a roll-out in more than 90 countries, and integrated new flight and rail providers that support a connected trip offering in select markets.

We are currently seeing an average of over 1,300* SME business customers activate** on the new platform each weekday. Serko expects this rate of activation to significantly increase as we progress through the final phases of the migration, which is due to complete in July 2021.

The migration provides Serko with the opportunity to access a much larger addressable market as travel activity recovers over time.

* Weekday average for current phase of eligible customers

** SME business booking behaviors will be different from our enterprise customers and activations will not necessarily translate into bookings immediately, particularly during Covid affected periods

North American-sourced income, primarily Expense platform revenue and US sourced supplier commissions, declined 51% to \$2.4 million from \$4.8 million largely due to Covid-19 impacts.

During the 2020 financial year we invested in our Zeno platform to position us for our continued expansion into North America. Booking revenue from this market was not significant in the 2021 financial year as TMC onboarding of customers onto the platform slowed materially and transactions have effectively ceased due to the lockdown and corporate imposed travel restrictions in this market.

We have a clear strategy to grow this market and it rests on the pillars of building awareness and support among TMC resellers, lifting our brand profile, reaching out directly to corporates to use our solutions and the launch of the Zeno expense platform to broaden the product offer.

Serko has signed an additional five TMC resellers during the financial year, and post year-end signed an additional reseller Frosch Travel Group. We continue to assist our resellers to be ready for the return to travel by supporting the integrations and the migration of additional corporates on to our platform.

Our product development to support the North American market requirements continues, and the 'Booking.com for Business' platform development will also help us grow booking volumes in this important travel market.

SERKO EXPENSE PLATFORM INITIATIVES

The Serko Expense platform has delivered a more resilient performance than the travel management platform. It represents an important diversification from travel revenues for Serko. Expense revenue, benefitting from fixed components to pricing, fell 31% to \$4 million from \$5.8 million, less sharply than the 52% fall in travel booking revenue.

A key development milestone in the year was the completion of work to align the user experience of InterplIX's expense management platform with that of Zeno Expense. We launched this new Zeno Expense offering in October 2020. We continue to develop this product to enable integration within the travel platform offering.

OUTLOOK

"A year on from the widespread imposition of global travel restrictions, the timing and extent of the travel recovery remains uncertain. The rate of return to business travel will vary by region, the type of traveller (SME versus enterprise), and the type of trip (i.e. domestic, regional, long-haul international). The combination of these multiple factors makes predicting the rate of travel recovery very difficult," Mr Grafton said.

"Nevertheless, we are seeing trends that favour the adoption of Serko's travel and expense management solutions.

"TMC resellers are operating with fewer people and this is creating opportunities for automation and technology solutions. Corporations are increasingly focussed on the costs and administration of their travel and expense budgets and at the same time are focussed on traveller wellbeing and their 'duty of care' obligations. We are actively assessing these changes to ensure that we can support the market, our customers, and our growth as the industry recovers.

"We are cautiously optimistic that the global vaccination programmes will enable widespread travel to resume, and we are continuously looking for new ways to lead the industry in this recovery. Indeed, we believe our target of achieving \$100 million revenue in the mid-term remains achievable but it has been delayed during this Covid-affected year.

"As noted above, the Booking.com for Business customer migration is anticipated to have a materially positive impact on our revenue for the FY22 financial year. However, as we are only part way through the migration process and in light of the uncertainty that remains around global travel trends, it is not possible to guide the market with any certainty as to the expected revenue uplift at this time.

"As at 30 April 2021, Serko had cash and short term deposits of \$77.7 million. We are still planning to increase the number of employees as we scale to capture growth opportunities, but we continue to target an average monthly cash burn of between \$2 million and \$4 million per month, to conserve cash reserves.

"We believe these cash reserves, at the current rate of cash burn, will be sufficient to see the company through to cash flow breakeven based on our current strategy. However, we will maintain our rigorous focus on cash flow throughout the remainder of the year with ongoing investment continuously assessed alongside developments in international travel markets.

"We will consider acquisitions and/or investments to assist Serko to accelerate execution of our strategic priorities, where it makes sense to do so.

"We will also keep investors apprised of material developments in the market and their impact on Serko, including when we complete the migration of 'Booking.com for Business' customers."

EXECUTIVE UPDATE

Mr Grafton said: "As announced at the time of the interim earnings announcement, Chief Financial Officer, Susan Putt, will transition out of her permanent role at the end of May 2021 following completion of the full year earnings announcement and audit process.

"Susan has played a critical role in the business over the last four years of Serko and I sincerely thank her for the guidance and contribution she has brought to me and Serko during her time with us." Mr Grafton said.

"Our process for identifying Susan's replacement is progressing well and we will update the market in due course when a permanent appointment is made. In the meantime, we have appointed an interim CFO, Susan Nemeth, to oversee the finance function during the transitional period.

"Susan Nemeth is an experienced CFO, having worked in both permanent and interim roles across various industry sectors over her career, and we welcome her to Serko."

"As a company with strong growth ambitions, we have also been continuing to strengthen our executive leadership team appointing Sarah Miller as General Counsel and appointing Rachael Satherley as Chief People Officer during the year." Mr Grafton said.

Ends

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.

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

² Recurring 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).

³ Peak 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 based on the daily weekday average multiplied by standard 260 weekdays in a year.

⁴ Research & Development (R&D) costs is a non-GAAP measure representing the internal and external costs related to R&D both expensed and capitalised.

⁵ EBITDAF 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 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. Listed on the New Zealand Stock Exchange Main Board (NZX:SKO) and Australian Securities Exchange (ASX:SKO), Serko is headquartered in New Zealand, with offices across Australia, China, and the United States.

Visit www.serko.com for more information.