

## Market Release

24 November 2021

# Serko's unaudited financial results for the half year to 30 September 2021 and launch of its \$85m capital raise

## SUMMARY FINANCIAL RESULTS<sup>1,2,3</sup>

- Total operating revenue increased 81% to \$9.2 million from \$5.1 million, while total income increased 16% to \$9.9 million from \$8.5 million.
- Total travel booking volumes rose 157% to 1.3 million from 0.5 million, lifted by limited lockdowns in Australia and New Zealand during the first quarter, and new Booking.com for Business transactions.
- Booking.com for Business migration completed, with over 300,000 business customers now on the new Zeno-powered platform. Average transactions have grown during the period and in September 2021 were generally in the range of 1,000 and 1,500 per weekday, despite ongoing COVID-19 related restrictions in the primary markets.
- Average revenue per booking (ARPB<sup>4</sup>) for the managed business was \$7.38 compared to \$8.76 during the full-year FY21 period due to a change in revenue mix. Booking.com for Business platform-related ARPB in September 2021 was just below NZ\$20.
- Net losses after tax increased by 50% to \$15.2 million from \$10.1 million reflecting the planned increase in expenditure to capitalise on the significant opportunities for Serko's expansion into international markets.
- EBITDA losses increased 76% to \$11.8 million from \$6.7 million.
- Net cash burn averaged \$2.9 million per month for the half year, within the \$2 million to \$4 million guidance range.
- Cash and short-term deposits on 30 September 2021 totalled \$62.3 million, down from \$79.9 million on 31 March 2021.

Serko (NZX & ASX:SKO), a leader in travel and expense management for business, today announces financial results for the half year to 30 September 2021 showing the company investing for the global opportunities emerging as travel markets recover from COVID-19.

It also announces the launch of a \$85 million capital raise to continue to execute on its global growth strategy. Serko plans to raise the capital via the issuance of ordinary shares in Serko by way of a NZ\$75 million fully underwritten placement and a NZ\$10 million non-underwritten retail offer.

The funds raised will be used to: continue to invest for growth into the unmanaged travel segment through our Booking.com for Business partnership; accelerate the development of our global marketplace strategy, and pursue opportunities for inorganic global expansion.

Further details of the capital raising are covered in the investor presentation and the associated documentation released to the NZX and ASX today.

## FINANCIAL RESULTS

<sup>1</sup> All dollar amounts are New Zealand dollars (NZ\$) unless otherwise stated

<sup>2</sup> Comparative numbers are for the prior comparative period (H1 FY21) unless otherwise stated.

<sup>3</sup> Non-GAAP measures used in this release are defined at the end of this release.

<sup>4</sup> ARPB is a blended rate and includes all recurring revenue divided by online bookings.

In sharp contrast to the same period a year ago when COVID-19 disruptions to travel markets in Australasia peaked, limited lockdowns in the first quarter of this year, together with a contribution from Booking.com for Business, has resulted in total operating revenue of \$9.2m, an 81% increase compared to 1H FY21.

However, the gains were tempered by the impact of COVID-19 on other markets, as well as the strict lockdowns experienced during the second quarter in New Zealand and Australia.

Total travel bookings on Serko's platform rose 157% to 1.3 million from 0.5 million in the same period a year ago, lifted by more limited lockdowns in Australia and New Zealand during the first quarter, and new Booking.com for Business transactions.

With increased travel during the period, the proportion of travel platform versus expense management revenue has changed compared to FY21. This resulted in a lower average revenue per booking (ARPB<sup>5</sup>) for the managed business of \$7.38 compared to \$8.76 during the full-year FY21. Booking.com for Business platform-related ARPB in September was just below \$20, this has subsequently increased to over \$20 during October.

Product design and development costs totalled \$13.4 million during the period (\$8.9 million in 1H FY21), of which \$7.0 million was capitalised (\$4.9 million in 1H FY21).

EBITDA losses increased 76% to \$11.8 million from \$6.7 million, reflecting a slow return to travel globally, combined with a continued and deliberate increase in investment in our platform and markets ahead of the eventual market recovery. Net losses after tax increased 50% to \$15.2 million from \$10.1 million.

Serko ended the period with cash and short-term deposits of \$62.3 million, down on the \$79.9 million at 31 March 2021. The cash burn over the six-month period averaged \$2.9 million per month, within the \$2 million to \$4 million guidance range. This reflects continued prudent cash management, balancing investing for opportunity while managing for uncertainty.

Further detail on the company's financial performance for the six-month period is covered in an accompanying presentation and the unaudited half year financial statements released to the ASX and NZX today.

## AUSTRALIA AND NEW ZEALAND

Serko continued to win new customers and occupy a strong market position in Australasia during the period.

The number of Australasian corporates transacting in the peak month during the period, May 2021, was 5,249 compared to the low of 3,443 in September 2021. Prior to COVID-19, over 6,800 corporates were transacting on Serko's platform. Serko's reseller partners have continued to transition customers on to the Zeno platform, with Serko securing increased transaction fees as part of the migration arrangements. Zeno adoption has increased from 53% of active corporate customers in September 2020 to 67% in September 2021 and migrations are expected to continue over the next 12 months.

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<sup>5</sup> ARPB is a blended rate and includes all recurring revenue divided by online bookings.

Up until the imposition of the latest lockdown in mid-August, the New Zealand market was performing very well. In the first quarter travel volume in New Zealand was 151% of pre-COVID-19 levels, peaking at over 160% in June 2021. With strict lockdowns reimposed in mid-August, volumes in New Zealand at the end of September were 47% of pre-COVID-19 levels, averaging 117% for the half year.

The recovery in Australia was more tempered due to more extensive lockdowns, reaching a high of 72% of pre-COVID-19 levels in April 2021, with an average over the half year of 46%.

For the Australasian region as a whole, average volume in the first quarter was 74% of pre-COVID-19 levels and 40% in the second quarter.

## NORTH AMERICA

The validation phase in North America is now complete, and the Zeno brand has a presence in market that is driving pipeline growth. Serko is experiencing an uplift in inbound enquiries, with multiple requests to participate in RFPs by Fortune 500 companies. Serko is currently in discussions with several large global US corporations about providing the Zeno platform for use by employees globally.<sup>6</sup>

Transaction volumes averaged more than 10% monthly growth from May 2021 to September 2021, despite the ongoing pandemic-related travel restrictions. Serko has 10 resellers signed, with active customers transacting across six of these partners, although volume remains at low levels.

## BOOKING.COM FOR BUSINESS

We are delighted with the accelerated progress we have made on our partnership with Booking.com. The new Booking.com for Business offering in the unmanaged travel space is available in nine languages across 180 markets, providing accommodation options, with flights and rail content progressively being added.

We successfully completed the migration of over 300,000 Booking.com for Business customers onto the new Zeno powered platform, with over 30,000 new sign-ups onto the platform since launch.<sup>7</sup> As announced to the market previously, the migration phase was extended by two months to the end of September to accommodate the transfer of remaining customers during a period of pandemic-related disruption but was overall delivered on a significantly accelerated timeline.

We've been pleased to see transactions grow from a zero base to a range of between 1,000 and 1,500 transactions per weekday, despite ongoing COVID-related restrictions in primary markets.

This migration completed Phase 1 of our journey with Booking.com to become a leading digital travel platform for small and medium sized businesses in the unmanaged travel space. The foundations of the new platform are in place, and Serko and Booking.com are now looking to expeditiously undertake the next phase of the roll-out to maximise and capture revenue opportunities, and grow transactions, as global business travel recovers.

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<sup>6</sup> There is no guarantee that these inbound enquiries and RFPs will result in a signed agreement on the terms currently envisaged or at all.

<sup>7</sup> We expect SME business booking behaviours will be different from our enterprise customers. It is uncertain when, and how often, migrated (also referred to as activated) customers, and new sign-ups, will transact, particularly during COVID-affected periods and as a result of intermittent travel needs of SME's. There is no guarantee that migrated/activated customers, or new sign-ups, will make bookings in the current financial period or beyond.

Through the initial migration phase, we believe we have captured less than 10% of the pre-COVID opportunity, presenting exciting growth opportunities for Serko as global business travel recovers and planned investment is made into additional product functionality and content.

### STRATEGIC UPDATE

Serko Chair Claudia Batten said: "The COVID-19 pandemic is a rare event that is reshaping the business travel industry landscape, impacting both the suppliers of travel content and services and the evolving needs of business travel buyers.

"This shift is giving rise to consolidation and disruption within the market, and as business travel returns over the coming years, we believe there will be a handful of players who will have an outsized opportunity through the recovery.

"Serko is positioning itself to be a player of global standing that is able to take advantage of these opportunities. We are continuing to invest in the global growth opportunities being presented, notwithstanding the ongoing headwinds of COVID, in the confidence that business travel will resume.

"We have continued to guide Serko through the COVID pandemic, focused clearly on the opportunities that lie ahead. While all our markets are still weathering the pandemic, we have delivered results well ahead of the same period a year ago, when virus-related disruptions to travel markets were at their peak, particularly in the Australasia markets, which still contribute the majority of our revenue.

"In the unmanaged travel sector, we successfully completed the migration of the Booking.com for Business customer base in September 2021.

"We are also making progress laying the foundations for growth in North American managed travel markets and are in discussions with several large entities to expand our presence in that region.

"In Australasia, activity on our travel booking platforms is still well below pre-COVID-19 levels, but Serko continues to occupy a strong market position in this region.

"We have achieved this while operating within the clear capital management framework we established at the start of the pandemic, balancing investment to take advantage of the opportunities we see, while managing for uncertainty."

Serko Chief Executive and Co-Founder Darrin Grafton said: "We are poised for growth out of this pandemic and the investment to date has proven our ability to grow from a regional leader to a truly global player. Our focus is now on scaling the business to activate the opportunities we have ahead of us.

"The significant progress we have made is underpinned by a dedicated team that have stayed focussed on the strategy and execution needed in a very complex environment. We have invested in the foundational work that enabled us to commence our global strategy.

"We have built a platform that has scaled to handle thousands of customers migrating onto the platform every day and maintained and built a system that has scaled with the demands to date.

"This project has required a huge effort from the Serko and Booking.com teams during a time where the teams often had to work remotely.

"We continue to advance our vision of the 'connected trip' with enhancements to our product and the addition of new content. These include tools that allow businesses to deliver on their sustainability commitments and better discharge the duty of care they owe to their travellers, such as informing them of COVID-19 protection measures."

## OUTLOOK

"Despite the ongoing disruption that is being seen in international travel markets, we remain very excited about the opportunities we see and remain confident in the return to business travel over time. We believe our target of reaching \$100 million revenue in the mid-term remains achievable, but this revenue target has continued to be delayed as a result of the pandemic," Darrin Grafton said.

"The disruptions to global business travel arising from the pandemic and other factors continues to make it challenging to determine the timing of realisation of revenues from these opportunities.

"Earlier in the year, when lockdowns in Australia and New Zealand were lifted, domestic travel activity resumed quickly, and we therefore expect to see similar trends play out in these markets as we reach high vaccination levels and following the adoption of a 'live with' policy. We have already seen an uplift as a result of the recent easing of travel restrictions within Australia, with transactions in the first half of November averaging over 52% of pre-COVID levels.

"We are in discussions to actively establish growth in North America and, while sales cycles tend to be relatively slow in this market, we believe the market continues to provide a significant growth opportunity over time and as business travel resumes.

"We are excited to embark on the next phase of the multi-year journey to activate and engage Booking.com for Business customers as they return to travel, and to fully realise the potential of the partnership with Booking.com.

"Serko anticipates full-year revenue and other income of between \$21 million and \$25 million. This outlook assumes a general reduction of domestic travel restrictions within Australia and New Zealand and no significant lockdowns in Europe or North America. The assumptions underlying these expectations are subject to variation and are detailed in the accompanying investor presentation. At the lower end of the revenue range average monthly cash burn in the six months to 31 March 2022 is expected to average close to \$4.0 million as investment is accelerated.

"As announced today, we are raising capital to allow us to invest to capture the growth opportunities we continue to see in each market and realise our vision of transforming from an online booking tool into a global marketplace, while retaining a prudent cash buffer to protect against a slower than expected COVID-19 recovery and other uncertainties."

ENDS

Released for and on behalf of Serko Limited by:  
Shane Sampson  
Chief Financial Officer

Serko Chief Executive Darrin Grafton and Chief Financial Officer Shane Sampson will this morning host conference call and webcast at 11.30 am NZT to discuss the capital raising and the results for the half year.

Details of the call are available on [serko.com/investors](https://serko.com/investors). A webcast of the call can also be accessed at the following link:

[https://event.webcasts.com/starthere.jsp?ei=1503170&tp\\_key=fab313a1a2](https://event.webcasts.com/starthere.jsp?ei=1503170&tp_key=fab313a1a2)

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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](http://www.serko.com) for more information.

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**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 EBITDA can be found in the 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; **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 total Recurring product revenue divided by the total number of online bookings.
- **Recurring product revenue** is a non-GAAP measure. Recurring revenue is derived from transactions and usage of Serko products by contracted customers. It excludes revenues from customised software development (services revenue).
- **Product design and development costs** is a non-GAAP measure representing the internal and external costs related to research, development, design and maintenance of software, both expensed and capitalised but excluding depreciation and amortisation.
- **Operating costs** is a non-GAAP measure which excludes costs relating to taxation, interest, depreciation, and amortisation charges.
- **Total travel bookings** include both online and offline transactions unless otherwise stated.
- **EBITDA** is a non-GAAP measure representing Earnings Before the deduction of costs relating to Interest, Taxation, Depreciation and Amortisation.

All dollar amounts are New Zealand dollars (NZ\$) unless otherwise stated.