

28 October 2022

ASX and MEDIA RELEASE

Straker reports continued growth and reiterates guidance

Technology-led, next generation language and localisation services provider Straker Translations (ASX: STG) reports continued strong and profitable revenue growth for the half year to 30 September 2022.

The company also reiterates its guidance and positive outlook, supported by its strong balance sheet, positive cashflows, and the latent opportunities in recent acquisitions.

FINANCIAL HIGHLIGHTS¹:

- Q2 FY23 revenue rose 19% to \$14.2m from \$11.9m in Q2 FY22 with the growth rate easing amid adverse trading conditions. 1H FY23 revenue up 42% to \$33.0m from \$23.3m in the same period a year ago.
- Q2 FY23 adjusted EBITDA² at -\$1.0m. 1H FY23 adjusted EBITDA of \$0.5m up \$1.5m from -\$1.0m in the same period a year ago.
- Turn around in operating cashflow in Q2 FY23 rising to \$1.8m in line with guidance from a negative \$2.3m in Q1 FY23. 1H FY23 operating cash outflow of \$0.5m improved 85% from 1H FY22 outflow of \$3.3m.
- Strong balance sheet with no debt and cash of \$12.5m at 30 September 2022.
- On track to deliver on May 2022 guidance for profitable growth in revenue for the 12 months to the end of March 2023 of 20% with gross margins exceeding the 54% achieved in FY22.

OPERATING HIGHLIGHTS:

- IDEST Communication, acquired in Q4 FY22, secured long-term agreement with the United Nations for global technical translation and revision services and completed technological integration with Straker's RAY translation platform.
- Secured partnership with Microsoft to translate print and online media into Māori.
- Development work to link with workplace apps Slack and Microsoft Teams accelerated with Slack app in testing and Teams development work commencing in Q3 FY23.
- Opened European data centres to deliver on General Data Protection Regulation requirements.

¹ All figures are in NZ\$ unless stated.

² Adjusted EBITDA excludes non-recurring acquisition, integration and other non-operating costs. Non-operating costs include costs of restructuring activities and non-recurring consulting costs.

Straker Translations (STG)
NZ Company no. 1008867
ARBN: 628 707 399

Registered Address
Level 2, 49 Parkway Drive
Rosedale, Auckland 0632

www.strakertranslations.com
investors@strakertranslations.com

Straker Translations has delivered a resilient performance in the first half of the new financial year supported by acquisitions and organic growth. Revenue for the six months to 30 September 2022 rose to \$33.0 million, up 42% on the \$23.3m achieved in the same period a year ago.

Revenue growth in Q2 eased amid general uncertainty caused by global macro-economic pressures and geopolitical tensions. Our strategic partnership with IBM, which delivered a particularly strong first quarter, saw revenues moderate in the second quarter. Revenues are expected to improve versus Q2 over the remainder of the financial year.

IDEST Communications, acquired in January 2022, is performing well. Notably, it secured a significant partnership with the United Nations (UN) for the provision of global technical translation and revision services from English to French and Spanish. We also completed the transition of IDEST to the RAY translation platform at the end of the Quarter.

The UN contract is a clear demonstration of the latent potential IDEST offers Straker through its relationships with global institutions such as the European Commission, the European Parliament, UNESCO, and the United Nations.

In New Zealand the Company secured a partnership with Microsoft to translate print and online media into te reo Māori. We are combining our translation tools with the Microsoft Translator platform and AI technology to enable news media to translate whole articles into te reo Māori at scale. It is a move that, in addition to fostering te reo Māori, builds our profile with a significant global player.

Margins and earnings

Gross Margins in Q2 FY23 of 55.9% were consistent with the 56.2% achieved in Q1 FY23. Straker continues to focus on margin improvements, recognising that incremental gains can deliver a significant uplift in EBITDA given the group's scale.

Q2 FY23 adjusted EBITDA² was down on the \$1.5m profit in the first quarter. The result brings 1H FY23 adjusted EBITDA to \$0.5m, a \$1.5m improvement on the \$1.0m loss in the previous corresponding period.

The (unaudited) result for the half-year is evidence of Straker's determination to leverage our economies of scale and realise the benefits that come from the integration of acquisitions.

The drop in earnings for Q2 FY23 reflected the decline in revenue versus Q1 FY23 which we expect to rebound, compounded by the drop in the NZD negatively impacting our costs.

The benefits of the lower cost resource centre we established in the Philippines in FY22, the tighter integration of our six European offices, and the ongoing integration of the RAY platform with both Lingotek and IBM's systems should positively impact costs going forward.

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Research and development – extending our leadership

As we highlighted at our recent AGM, we are now transitioning to a new innovation cycle that will further extend our technology advantage over the competition. Our focus is on driving the seamless integration of our RAY platform with ‘workplace super apps’ such as Slack and Microsoft Teams.

Since the onset of the global pandemic and the associated move to remote working, usage of these workflow collaboration tools has grown exponentially. Slack is now used by 10 million users daily and by 65 of the Fortune 100 list of the US’ largest companies³. Meanwhile, Microsoft Teams is now used by 1 million organisations globally and 270m monthly users, a customer base twice the size versus 12 months ago⁴.

We have developed an app for Slack that allows Straker clients to order translations and monitor the progress of those translations without leaving the Slack environment. The approach, which is aligned with our strategy to ‘be where the customer works’, further enhances the user experience of our clients, allowing their teams to order and manage translations within their normal workflow.

The app is now in limited release with selected customers, and we intend to offer it more broadly in the current Quarter. We are also commencing the development of a similar app for Microsoft Teams and aim to launch it early next year. These developments will further enhance our appeal to the world’s largest companies, which are seeking providers that can deliver global, technology-led localisation services. We also expect the apps to open more subscription Software as a Service (SaaS) revenue opportunities.

We have delivered on our service commitments to IBM to drive the automation of the order and delivery of their translations. We are proud of our achievements with now more than 85% of IBM translations delivered automatically.

Building on our commitments to cyber-security and the successful ISO 27001 information security audit in Q1 we opened a new European data centre. The new centre meets many of our customers’ requirements for compliance with European General Data Protection Regulation standards. We meanwhile continue to drive tighter integration between the RAY and Lingotek platforms and the development teams.

Cash flows and funding

In line with prior guidance, operating cash inflow resumed in the Q2 FY23, rising to \$1.8m from a \$2.3m operating cash outflow in Q1FY23. For 1H FY23 operating cash outflow improved to \$0.5m, versus an outflow of \$3.3m the prior corresponding period.

The Q2 FY23 total cash inflow was \$1.1m following strong customer receipts and the benefit of currency revaluations on foreign cash reserves. In 1H FY23 total cash outflow was \$2.6m following earnout payments to NZTC and IDEST Communications of \$1.7m, working capital requirements

³ <https://slack.com/blog/news/slack-has-10-million-daily-active-users>

⁴ <https://www.zdnet.com/article/microsoft-teams-now-has-more-than-270-million-monthly-active-users/>

and the timing of customer receipts. Straker retains a strong balance sheet with no debt and cash of \$12.5m as at 30 September 2022.

Summary and outlook

CEO and Co-founder Grant Straker said the company remained well positioned despite recent geopolitical tensions and macroeconomic conditions.

“In the face of the global economic challenges, Straker’s global reach and capability as well as our technology leadership represent a more compelling proposition to customers than ever. We are meanwhile building on these strengths with our focus on delivering service through workplace super apps that will further differentiate us from the competition.

“We have a strong balance sheet and are on track to deliver on the guidance issued at the end of May 2022 for profitable growth in revenue for the 12 months to the end of March 2023 of 20% and gross margins exceeding the 54% achieved in FY 2022.

“We look forward to providing a further update when we release our financial results for 1H FY23 in late November.”

Related party transactions

An amount of \$141k was paid to Directors in fees during Q2 FY2023, with a further \$9k paid to a director in relation to consulting services provided.

Authorisation

This announcement has been authorised for release by the Board of Straker Translations Limited.

Corporate:

Grant Straker, CEO & Co-Founder
E: grant@strakertranslations.com
P: +64 21 512 484

David Ingram, CFO

E: david.ingram@strakertranslations.com
P: +64 21 591 984

Investors:

Ben Henri
E: ben.henri@mcpartners.com.au
P: +61 473 246 040

Media:

Melissa Hamilton
E: melissa.hamilton@mcpartners.com.au
P: +61 417 750 274

About Straker Translations

Based in New Zealand Straker provides next generation language services supported by a state-of-the-art technology stack and robust AI layer to clients around the world. By combining the latest available technologies with linguistic expertise, Straker’s solutions are scalable, cost-effective, and accurate. Through technical innovation and data analytics, Straker is a proven partner in future-proofing global communications.

For more information visit: www.strakertranslations.com

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Appendix 4C
Quarterly cash flow report for entities
subject to Listing Rule 4.7B

Name of entity		
Straker Translations Limited		
ABN	Quarter ended ("current quarter")	
628 707 399	Q2 30 September 2022	
Consolidated statement of cash flows	Current quarter \$NZD'000	Year to date (6 months) \$NZD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	18,173	31,447
1.2 Payments for		
(a) research and development	(1,774)	(3,257)
(b) product manufacturing and operating costs	(7,224)	(14,058)
(c) advertising and marketing	(490)	(810)
(d) leased assets	-	-
(e) staff costs	(6,020)	(12,052)
(f) administration and corporate costs	(897)	(1,851)
1.3 Dividends received (see note 3)		
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	(130)	(128)
1.7 Government grants and tax incentives	118	205
1.8 Other (provide details if material)		
Acquisition/integration payments	-	-
1.9 Net cash from / (used in) operating activities	1,755	(505)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(37)	(100)
(d) investments	-	-
(e) intellectual property	(543)	(1,276)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(580)	(1,376)
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)		
Deferred consideration	(527)	(1,663)
Lease Payments	(103)	(247)
3.10 Net cash from / (used in) financing activities	(630)	(1,910)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	11,435	15,131
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,755	(505)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(580)	(1,376)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(630)	(1,910)
4.5	Effect of movement in exchange rates on cash held	520	1,160
4.6	Cash and cash equivalents at end of period	12,500	12,500

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$NZD'000	Previous quarter \$NZD'000
5.1	Bank balances	12,500	11,435
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	12,500	11,435

6.	Payments to related parties of the entity and their associates	Current quarter \$NZD'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	150
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</p>		

7. Financing facilities

*Note: the term "facility" includes all forms of financing arrangements available to the entity.
Add notes as necessary for an understanding of the sources of finance available to the entity.*

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 Total financing facilities

Total facility amount at quarter end	Amount drawn at quarter end
\$NZD'000	\$NZD'000

7.5 Unused financing facilities available at quarter end

-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

8. Estimated cash available for future operating activities**\$NZD'000**

8.1	Net cash from / (used in) operating activities (Item 1.9)	1,755
8.2	Cash and cash equivalents at quarter end (Item 4.6)	12,500
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	12,500
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1. This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
2. This statement gives a true and fair view of the matters disclosed.

Date: 28-Oct-22

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.