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## **ASX ANNOUNCEMENT**

23 April 2020

# **Quarterly Activities Report for Quarter Ended 31 March 2020**

## **Straker's stable cash flows and strong balance sheet continued in Q4**

### **Key takeaways from Q4 FY2020:**

- 1) Strong capital and liquidity position, combined with appropriate overhead adjustments put the Company in a healthy position to navigate the global COVID-19 coronavirus pandemic**
  - Cash balance of NZ\$11.2 million and no debt (at 31 March 2020) provides downside protection and M&A optionality
  - Business continuity plan implemented
  - Government stimulus support expected to provide NZ\$0.6 million over the next 3 months across Straker's global footprint, with NZ\$0.4 million relating to New Zealand now received
  - Right-sized organisation is expected to deliver NZ\$3.0 million to NZ\$3.5 million of annualised savings, without impacting R&D investment in development staff and product
  - Variable cost base utilising freelance translator pool provides flexibility
  
- 2) Translation services are still in demand, and more so in some sectors**
  - Cash inflows of NZ\$6.8million, up 7.7% on Q4 FY2019
  - Operating net cash outflow of NZ\$(0.3) million reflects underlying business performance, including NZ\$(0.2) million of re-structuring costs to right-size the organisation's structure
  - No material change in sales pipeline, although from mid-March early signs of slower decision making emerging in certain business segments, while other segments such as Media continue to grow
  
- 3) Post-coronavirus, there are opportunities to increase customers seeking supply chain savings using RAY translation platform, and also for a range of well-priced M&A transactions**
  - Engaged in a number of large project discussions with several global organisations seeking to improve supply chain efficiency through the use of Ai-powered translation services
  - Successfully acquired NZTC International, a New Zealand based translation business with unaudited historic full year revenue of NZ\$4.3 million
  - M&A growth strategy paused given the current market environment
  - Straker remains committed to its vision to be a \$100 million revenue company within 3 years

Straker Translations Limited (ASX: STG), a world leading translation platform building the future of global communication bringing machines and humans together, is pleased to provide this Quarterly Activities Report alongside its Appendix 4C (Quarterly Cashflow Report) for the quarter ended 31 March (Q4 FY2020).

**Reflecting on Q4 FY2020, CEO & Co-Founder of Straker Translations, Grant Straker said:**

*“While the positive benefits from our strategic focus on Enterprise customers started showing in January and February, the impact of the global COVID-19 coronavirus pandemic reduced revenues in the last two weeks of March as key customers deferred product launches and commercial activity reduced generally. Our new business pipeline remains strong, and we continue to see demand for translation services in the current environment.*

*“Our Media segment continued to grow strongly in the March quarter, and since the end of March has seen smaller revenue declines than our other business segments. On the Enterprise side we have managed to secure seven new Enterprise clients during the fourth quarter, and they will generate revenues fairly quickly, albeit we won’t see substantial revenues from these new customers until the market environment returns to a more normal rhythm.*

*“Our main focus over the last couple of months has been on making sure our global team remains safe and healthy. We moved to remote working for our employees in Europe prior to the shut-downs coming into place, and all our global employees are now working from home. Also, clients are not experiencing any change in service and support levels, and we are seeing growing use of our proprietary Ai-powered RAY translation platform.*

*“Importantly, we are maintaining the momentum of our development group and continuing to invest in key development staff and product enhancements. We see tremendous opportunities for our Ai-powered RAY translation platform driving new business amongst companies seeking supply chain savings.*

*“We are very pleased to have acquired NZTC International during the fourth quarter, and we see a great opportunity to increase their gross margin as we move their work onto our Ai-powered RAY translation platform. The integration is well underway, and we are already seeing an increasing number of NZTC International’s projects being processed on our platform.*

*“With NZ\$11.2 million cash in the bank and no debt, and our organisational structure right-sized, the Company is in a strong position to weather the potential impact of the global pandemic, and allow us to continue to pursue growth initiatives that should see the business come out even stronger once the pandemic is behind us.”*

**Global COVID-19 coronavirus pandemic**

Straker Translations’ number one issue during this time has been to ensure that all its employees globally are safe and healthy, and that they have the necessary support they require. The Company’s Ai-powered RAY translation platform manages the majority of work that comes in on a cloud-based workbench that can easily move jobs across different regions and project managers. As a result, the business is very agile and it has allowed all employees to work from home even before Government enforced shut-downs were in place, while ensuring client service and support levels remained at their previously high levels.

While sales levels in January and February continued historic growth patterns, the global coronavirus pandemic impacted sales from mid-March 2020 with an underlying drop in sales orders of around 7%. Given the dynamic nature of the pandemic response, it is hard to predict with accuracy revenues for

Q1 FY2021, however, the Company is seeing opportunities to cushion the impact of the underlying decline in revenue with some larger one-off projects.

To ensure that Straker Translations has an organisational and overhead structure aligned with the current operating environment, the Company has taken the steps necessary to re-structure and cut costs where possible, while ensuring that client service and support levels are not affected. The initiatives implemented to date are expected to deliver annualised cost savings of between NZ\$3.0 million to NZ\$3.5million. In addition, the Company is also receiving Government stimulus support totalling NZ\$0.6 million globally, including NZ\$0.4 million from the New Zealand Government in relation to the Company's New Zealand based employees.

While decisions have been made to re-align the Company's operating structure and overhead cost base, Straker Translations' investment in its development staff and product technology will continue in line with historic levels to ensure that when the market environment returns to a more normal rhythm, the Company can aggressively pursue new customers and additional business from its existing customers.

### **Successful acquisition of NZTC International**

On 10 February 2020, Straker Translations acquired NZTC International (NZTC), an international translation and interpreting business headquartered in Wellington, New Zealand. NZTC's unaudited revenue for the prior 12 months was NZ\$4.3 million. Having operated a strong and stable business over the past 30 years, founders Liz Seymour and Paul Sulzberger believed the business would greatly benefit from accessing Straker Translations' leading edge Ai-powered RAY translation platform and being part of a larger global company.

The global Enterprise market is increasingly moving towards comprehensive solution packages across geographies, languages and services. The acquisition of NZTC strategically added "interpreting" services to Straker Technology's offering and supported the Company's ability to provide Enterprise customers with an integrated global offering covering translations, interpretation and media localisation on a single proprietary translation platform.

The integration of NZTC is progressing well, with work from their translation business already moving onto Straker Translations' Ai-powered RAY translation platform. As more and more of NZTC's work is transitioned across to the workbench, margin improvements will be significant and the speed at which NZTC delivers its projects to clients will increase as well.

### **M&A activity**

As a result of the current market environment, Straker Translations has paused its M&A activity, stepping back from a potential acquisition during the latter part of the quarter. This potential acquisition was put on hold by both parties.

M&A continues to play an important role in Straker Translations' future growth. Opportunities to find strategically valuable and well run businesses will increase once the economic impact from the global pandemic eases, and the Company's current cash balance not only provides downside protection in the current market environment but also M&A optionality.

### **Stable cashflows and strong capital position**

Q4 FY2020 unaudited cash collections were up 7.7% to NZ\$6.8 million (Q4 FY2019: NZ\$6.3 million).

Operating net cash outflow for the quarter<sup>1</sup> of NZ\$(0.3) million, compared to an outflow of NZ\$(0.3) million in Q4 FY2019. Q4 FY2020 cash outflow reflects the underlying business performance, including NZ\$(0.2) million of re-structuring costs that will result in lower ongoing operational costs moving forward.

Straker Translations continued to increase its investment in platform and technology development, with NZ\$0.3 million invested in capital development during Q4 FY2020. The Company will continue to invest to enable it to pursue the attractive opportunities presented by the global Enterprise and Media market segments.

The volatility on the foreign exchange market along with a weakened NZ Dollar has resulted in a positive FX impact of NZ\$0.6 million, with the business closing Q4 FY2020 with a cash balance of NZ\$11.2 million and no debt. This strong capital and liquidity position will support the Company's ability to continue operating through the current challenging market conditions, while being well placed for growth when the opportunity presents itself.

### **Related Party Transactions**

An amount of NZ\$90 thousand was paid to directors in fees, during the fourth quarter FY2020 and a further NZD\$29 thousand was paid to a director in relation to consulting services provided.

### **Quarterly Activities Report Video**

A short video presentation by Grant Straker on the key takeaways from the Company's Q4 2020 Activities Report can be viewed at:

<https://www.strakertranslations.com/company/investors/updates/4cq4/>

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

### **For further information, please contact:**

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### **About Straker Translations**

Based in New Zealand, Straker Translations has established itself as a world leading Ai data driven translation platform powering the global growth of businesses.

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<sup>1</sup> Including the impact of NZ IFRS 16 Leases

Straker Translations has developed a hybrid translation platform that utilises a combination of Ai, machine-learning and a crowd-sourced pool of freelance translators. The Company's cloud-based platform manages the end-to end translation process, leveraging Ai, machine-learning (both inhouse and third party owned engines) to create a first draft translation and subsequently matching the customer's content with one or more of the approximately 13,000 crowd-sourced human freelance translators for refinement.

This process is managed using Straker's proprietary "RAY Translation Platform", which has been developed over eight years and is an enterprise grade, end-to-end, cloud-based platform. By leveraging machine translations and its big data assets, the RAY Translation Platform enables the delivery of faster and more accurate translations, lowering the time and cost to deliver versus traditional translation services. The platform can be integrated directly into customers' systems and consists of a customer dashboard, machine translation integration and modules for assisting and managing translators.

For more information visit: [www.strakertranslations.com](http://www.strakertranslations.com)

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

Straker Translations Limited

**ABN**

628 707 399

**Quarter ended ("current quarter")**

Q4 – 31 March 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$NZD'000</b>	<b>Year to date (12 months) \$NZD'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	6,770	27,062
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(2,757)	(12,007)
(c) advertising and marketing	(290)	(1,468)
(d) leased assets		
(e) staff costs	(2,598)	(9,873)
(f) administration and corporate costs	(1,449)	(5,405)
1.3 Dividends received (see note 3)		
1.4 Interest received	19	76
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(305)</b>	<b>(1,615)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	(374)	(2,272)
(b) businesses		
(c) property, plant and equipment	(12)	(222)
(d) investments		
(e) intellectual property	(289)	(1,174)
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$NZD'000	Year to date (12 months) \$NZD'000
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	-	10
(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)		
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(675)</b>	<b>(3,658)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	72
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	-	(226)
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings	(591)	(1,518)
3.7 Transaction costs related to loans and borrowings	(16)	(63)
3.8 Dividends paid		
3.9 Other (provide details if material)	(150)	(510)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(757)</b>	<b>(2,245)</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	12,376	17,669
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(305)	(1,615)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(675)	(3,658)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$NZD'000</b>	<b>Year to date (12 months) \$NZD'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(757)	(2,245)
4.5	Effect of movement in exchange rates on cash held	566	1,054
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>11,205</b>	<b>11,205</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$NZD'000</b>	<b>Previous quarter \$NZD'000</b>
5.1	Bank balances	7,693	5,627
5.2	Call deposits	3,550	6,749
5.3	Bank overdrafts	(38)	-
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>11,205</b>	<b>12,376</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

<b>Current quarter \$NZD'000</b>
90
29

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



**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 \$NZD'000	Amount drawn at quarter end \$NZD'000
-	-
-	-
-	-
-	-

**7.5 Unused financing facilities available at quarter end**

N/A

- 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)	(305)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	11,205
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	11,205
8.5	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	36.7

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

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:

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:

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:

## 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: 23 April 2020.....

Authorised: 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.