Quarterly Activities Report

25 January 2023

ASX and MEDIA RELEASE

Straker reports operational progress amid macro trading challenges

Technology-led, next generation language and localisation services provider Straker Translations (ASX: STG) today reports strong operational progress in Q3 FY23, including significant cost reductions.

The achievements come in the face of tougher global trading conditions and lower revenue growth, and position Straker to return to delivering positive cashflow and earnings in Q4 FY23.

Reflecting the macro-economic pressures - and a delay to a key IBM localisation initiative that Straker expected to be a key driver of revenue and earnings in both Q3 FY23 and Q4 FY23 - the company today is also adjusting its revenue guidance for FY23.

Straker now expects revenue for the 12 months to the end of March 2023 to range between $60 million and $62 million. This represents year-on-year growth of 7.3% to 10.9% versus prior guidance for revenue growth of 20% in FY23. We continue to expect gross margins for the year to exceed the 54% achieved in FY22.

FINANCIAL HIGHLIGHTS[1]:

- Revenue of $13.5m.
- Adjusted EBITDA[2] at -$0.2m compared to -$1.0m in Q2 FY23 and $0.8m in Q3 FY22
- Operating cash outflow of $171k, but excluding restructuring costs of $328k the company posted positive cash flow of $157k.
- Gross Margin of 59% compared to 56% in Q2 and 54% in the prior year.
- Cost savings and productivity growth generated $5m in annualised cost savings primarily from headcount reduction.
- Balance sheet remains strong with no debt and cash of $10.9m at 31 December 2022.

OPERATING HIGHLIGHTS:

- IBM strategic translations agreement renewed in November 2022 for a three-year term, further validating the Straker technology stack and service offering for global enterprises.

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[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.

- Slack app now live with IBM and on track to offer it more broadly to customers in Q4 FY23. Development work continues on Microsoft Teams Slack app integration.
- Partnership with Microsoft to translate print and online media into Māori on track and set for completion in Q1 FY24.
- European data centres to deliver on General Data Protection Regulation requirements performing well.
- New contract wins with global audio giant Sonos and the OECD

Straker Translations achieved revenue for the three months to the end of December 2022 of $13.5m

A faster than expected deterioration in global trading conditions, particularly in Europe delivered a subdued quarter, although Q4 FY23 outlook is looking strong. This slowdown in trading was compounded by a delay to a new localisation initiative planned with IBM that was expected to be a key driver of revenue in both the third and fourth quarters.

Against this, we are pleased with the progress we have made in our Asia Pacific business and the growing contribution from our new European business IDEST which we acquired in the fourth quarter of the prior financial year. We were also delighted to welcome the global audio giant Sonos as a new customer as well as securing a multi-million dollar 3-year contract with the OECD.

Straker also notched up significant operational achievements in the Quarter. As previously announced in November 2022, we extended our strategic translations services agreement with International Business Machines Corporation (IBM) by three years.

The new agreement, which underscores the strength of the relationship we enjoy with the Fortune 500 company, ensures Straker will continue to accrue the significant, multi-million-dollar revenue from its existing contract.

The drop in top-level revenue was offset by a substantial drop in operational expenditure as we benefited from ongoing moves to drive efficiency in the business. These initiatives, which will lower the annualised operational expenditure run rate by $5m, include:

- A reduction in our global workforce by 19% to 225 FTE's at the end of December 2022.
- Further integration of the acquisitions made over the last two years (the US-based Lingotek acquired in 2021 and the Belgian-based IDEST acquired last year).
- The ongoing productivity gains that come from transitioning customers to our technology and automation of the translation process.

A tangible demonstration of these initiatives is the creation of a new RAY LanguageCloud offering , combing two new brands, RAY Cloud and RAY Enterprise, with the former encompassing the Software as a Service (SaaS) offer of Lingotek and RAY Enterprise for the traditional fee-for-service business.

The RAY LanguageCloud is the first frictionless Language Cloud product on the market with integration into workplace apps taking language processes and workflows into everyday tools customers use.

As detailed below, Straker further developed its technologies. This combined with the productivity improvements positions the company well for the normalisation of trading conditions.

Margins and earnings

Gross Margins in Q3 FY23 of 59% compared to 56% in Q2 FY23 and 54% in the same period a year ago. Going forward margins should continue to be supported by our efforts to further automate translations.

We remain focused on margin improvements recognising the potential of incremental productivity gains as we return to revenue growth.

Q3 FY23 adjusted EBITDA[2] showed a loss of $0.2m, compared to a loss of $1.0m in Q2 and a profit of $0.8m in the same period last year. The result is partly due to a decrease in revenue, which was offset by efficiency improvements from prior investments. We anticipate these initiatives will lead to an improved financial performance in the upcoming quarter.

Research and development – extending our leadership.

As we first highlighted at our annual meeting last year, a key shift in our development programme is 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 companies[3]. Meanwhile, Microsoft Teams is now used by 1 million organisations globally and 270m monthly users, a customer base twice the size versus 12 months ago[4].

We are working closely with several teams across IBM testing the use of our Slack app to support the global translation needs across the organization in a more automated and frictionless way. The app allows the IBM team to order translations and monitor their progress through the app without the need to switch to a new system.

We are also making good progress with the development of a similar app for Microsoft Teams and aim to launch it early next financial year. These developments will further enhance our appeal to the world's largest companies, which are seeking providers that can deliver global, technology-led

[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/

localisation services. We also expect the apps to open more subscription SaaS revenue opportunities.

Finally, as highlighted in Q2 FY23, in New Zealand we secured a partnership with Microsoft to translate print and online media into te reo Māori. We are making good progress 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.

Cash flows and funding

Operating cash outflow for Q3 FY23 was $171K, however excluding restructuring costs of $328k, the company recorded positive cash inflow of $157k. This compares to operating cash inflow of $1.8m in Q2 FY23 and $34k in the same period of the prior year.

Total cash outflow for the quarter was $0.9m compared to cash inflow of $0.5m in Q2 FY23 and cash outflow of $0.8m in Q3 FY22. Straker retains a strong balance sheet with no debt and cash of $10.9m at 31 December 2022 compared to $12.5m as at 30 September 2022.

Summary and outlook

CEO and Co-founder Grant Straker said: "We are weathering the challenges of the ongoing geopolitical tensions and macroeconomic conditions and still forecast growing revenue. Our efforts in Q3 to reduce costs and leverage synergies from recent acquisitions have given us confidence in generating positive cash flow and EBITDA in Q4.

"While the easing in our revenue growth rate is disappointing our worldwide presence and expertise, technology leadership, as well as productivity advantages continue to make us a strong contender. Additionally, advancements in our technology will further set us apart from the competition.

"We have had strong and positive feedback on our RAY LanguageCloud offering and we look forward to providing a further update in April when we release our Q4 FY23 activities report."

Related party transactions

An amount of $113k was paid to Directors in fees during Q3 FY2023, with a further $6k 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.

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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

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	Q3 31 December 2022

Consolidated statement of cash flows		Current quarter $NZD'000	Year to date (9 months) $NZD'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	16,502	47,949
1.2	Payments for		
	(a) research and development	(1,453)	(4,710)
	(b) product manufacturing and operating costs	(8,170)	(22,228)
	(c) advertising and marketing	(165)	(975)
	(d) leased assets	-	-
	(e) staff costs	(5,678)	(17,730)
	(f) administration and corporate costs	(831)	(2,682)
1.3	Dividends received (see note 3)		
1.4	Interest received	9	9
1.5	Interest and other costs of finance paid	-	(1)
1.6	Income taxes paid	(36)	(164)
1.7	Government grants and tax incentives	-	205
1.8	Other (provide details if material)		
	Acquisition/integration costs	(21)	(21)
	Restructure costs	(328)	(328)
1.9	**Net cash from / (used in) operating activities**	**(171)**	**(676)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(1)	(101)
	(d) investments	-	-
	(e) intellectual property	(545)	(1,821)
	(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**	**(546)**	**(1,922)**

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	8	8
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	-	(1,663)
	Lease Payments	(167)	(414)
3.10	**Net cash from / (used in) financing activities**	**(159)**	**(2,069)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	12,500	15,131
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(171)	(676)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(546)	(1,922)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(159)	(2,069)
4.5	Effect of movement in exchange rates on cash held	(770)	390
4.6	**Cash and cash equivalents at end of period**	**10,854**	**10,854**

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	10,854	12,500
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)**	**10,854**	**12,500**

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	119
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.*	**Total facility amount at quarter end** **$NZD'000**	**Amount drawn at quarter end** **$NZD'000**
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	**-**	**-**

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)	(171)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	10,854
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	10,854
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	63

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: 25-Jan-23

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.