

27 April 2023

## ASX and MEDIA RELEASE

### Straker delivers robust cash flow in Q4 & Adjusted EBITDA profit for FY23

Technology-led, next generation language and localisation services provider Straker Translations (ASX: STG) today reports a strong cash flow and margin result in Q4 FY23 and Adjusted EBITDA profit (unaudited) for FY23.

#### FINANCIAL HIGHLIGHTS<sup>1</sup>:

- Operating cash flow of \$2.1m for the Quarter, \$1.2m higher versus pcp, as well as Free Cash Flow (FCF) generation of \$1.7m
- Unaudited FY23 Revenue of \$59.4m up 6% vs FY2022, just shy of the lower end of our guidance range of \$60m, whilst cash receipts were 23% higher, at \$62m
- Met profitability guidance for FY23 and delivered a consecutive year of profitability with Adjusted EBITDA<sup>2</sup> of \$1.4m thanks to a particularly strong result in Q4
- Adjusted EBITDA for Q4 was \$1m, even after a material reduction in capitalised R&D expense, and compared to -\$0.2m in Q3 FY23 and \$0.4m in the pcp
- Met margin guidance for FY23 with Gross Margin at 57%, well above our target of >54%
- Strong improvement in profitability in Q4 thanks to positive impact of prior opex reductions with a 61% Gross Margin the highest in Straker's history, 870bp higher than the pcp
- Balance sheet remains strong with cash increasing to \$12.5m at 31 March 2023, up from \$10.9m at 31 December 2022, and no debt

#### OPERATING HIGHLIGHTS:

- The IDEST business, acquired in the pcp, outperformed market conditions and grew revenue versus the December Quarter
- IBM volumes rebounded materially quarter on quarter, but remain below peak levels
- A number of new client wins during the period including large corporations such as Spectrum Brands and Agropur
- Continuing investment in R&D with integration into workplace apps a key focus

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<sup>1</sup> All figures are in NZ\$ unless stated.

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

## Revenue

Straker Translations' revenue for FY23 was \$59.4m, just shy of the lower end of our guidance range of \$60-62m, as soft trading conditions persisted in the final Quarter of the financial year. Pleasingly, however, cash receipts of \$62m came in 23% higher year on year.

Revenue in the March Quarter was \$12.9m, down marginally versus the December Quarter. March was the strongest revenue month in the quarter rebounding 23% on the prior 2 months. Again, cash collections in the Quarter were higher than reported revenue with \$14.1m in cash receipts.

The revenue decline in Q4 reflected ongoing weakness in trading conditions in certain regions, particularly in North America. Whilst conditions in Europe were still slow and revenue declined versus the December Quarter the pace of that decline moderated materially. This was assisted by the IDEST business delivering its strongest Quarter since Q1 FY23. Progress in our Asia Pacific business continues and remained steady despite the external environment.

With respect to IBM, the Company is seeing more translation activity as it has on-boarded additional areas of the business and has delivered on several training programs for IBM translators. This saw a strong sequential quarterly increase in IBM revenue for the quarter, although it remains below peak levels, a symptom of general market conditions impacting the tempo of IBM's own translation requirements.

## New Business

Straker continued to win customers across our various regions in the Quarter. In North America Straker won a competitive tender against 12 other providers to become the sole translation supplier to Agropur in Canada. Agropur is a Canadian co-operative and one of North America's leading dairy processors with revenue of ~CAD\$7bn p.a. as well as a material annual spend on translations. Straker's expertise in workplace apps was a particularly important factor in winning this contract.

Also in North America, Straker won an RFP from the Medical Council of Canada (MCC) for the translation of medical diplomas for foreign medical staff in Canada and Canadian medical staff working abroad. This contract, to be a material contributor to our North American region revenue, is similar to work Straker is already performing for MCC's sister organisation in the US, the Educational Commission for Foreign Medical Graduates (ECFMG).

In Europe we have begun working for Spectrum Brands. Spectrum, a US based Fortune 500 company, owns a number of globally recognised brands, including 'Remington' and 'Russel Hobbs'. Spectrum's large brand portfolio represents an attractive future commercial opportunity for Straker.

## Margins and earnings

Gross Margins in Q4 FY23 of 61% were the highest ever in Straker's history, up 301bp versus the December Quarter and substantially higher than the 52% recorded in the pcp. The Company does

not expect Gross Margin to remain above 60% going forward, however, it is expected to remain elevated versus historical levels.

Adjusted EBITDA in Q4 FY23 was \$1m, compared to -\$0.2m in Q3 FY23 and \$0.4m in the pcp. As flagged in the December Quarter Straker had previously taken steps to lower the annualised operational expenditure run rate by \$5m and the positive impact of this is being seen on profitability. Over the course of the year Straker has reduced salary costs by 15%, this includes reducing quarterly production costs by 16% in Q4, an example of the improving productivity of our production effort. Also of note, final integration efforts at the Lingotek business allowed us to materially reduce sales expense in the business without compromising capability.

## Research and development

Maintaining the Company's leading technology advantage remains a core priority. Despite a focus on tight opex control Straker has not reduced the pace of investment in R&D with investment relatively consistent with prior quarters.

Our priority remains delivery of our services via workplace super apps such as Microsoft Teams and Slack, a move aligned with our strategy to 'be where the customer works'. 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.

The RAY Slack application went live with IBM in Q3 and the roll out to IBM users (the largest user base of Slack globally) continued during Q4. Straker's Slack translation app provides clients the ability to initiate translation workflows without leaving the Slack interface, reducing friction for the customer and increasing 'stickiness'.

Work continued on the Straker Translator for another of the workplace super apps, Microsoft Teams. The app has been tested internally and is now in the process of being submitted to the Microsoft Teams app store.

R&D is also focused on taking advantage of the productivity benefits of the new wave of generative AI, and the need for corporate customers to have closed-loop and highly secure AI based translation systems. Straker will be releasing new updates of their LanguageCloud platform in Q1 that include new features based on generative AI.

## Cash flows and funding

Operating cash flow for FY23 was \$1.4m, benefitting from an outstanding result in the final Quarter characterised by strong cash receipts and nascent gains from the expenditure reduction actions taken in the December Quarter.

Operating cash flow for Q4 FY23 was robust at \$2.1m. This compares to a very modest cash outflow in the December Quarter and \$0.9m recorded in the pcp. The Quarter's strong cashflow outcome was achieved whilst maintaining sales force capability and steady R&D investment.

Straker also delivered FCF in the Quarter of \$1.7m. This cash generation resulted in a strengthening of the Company's balance sheet and cash rose from \$10.9m at 31 December 2022 to \$12.5m at 31 March 2023. The Company remains debt free.

## Summary and outlook

CEO and Co-founder Grant Straker said: "Our focus on appropriately managing costs, highlighted by our FCF generation in the Quarter means we well placed to handle current cyclical weakness. As we noted in our December Quarterly, we expected to generate positive cash flow and EBITDA in Q4, and that is exactly what we delivered."

"We have also been able to maintain our investment in technology, particularly around our integration into workplace super apps, which in our view, represent the way this industry in heading. Straker is at the cutting edge of this evolution in the delivery of translation services. We stand ready to capture revenue opportunities as markets inevitably improve."

## Related party transactions

An amount of \$107k was paid to Directors in fees during Q4 FY23, with a further \$23k paid to a director in relation to consulting services provided.

## Zoom Presentation

Grant Straker (CEO) and David Ingram (CFO) will host an investor zoom call with a short presentation and Q&A today at 10am AET / 12pm NZT. The business update will cover some of the new opportunities Straker are seeing as the awareness and appreciation of AI driven translations continue to grow.

For those wishing to dial into the call, please register in advance for the call through the following link:

[https://strakertranslations.zoom.us/webinar/register/WN\\_YgVG6MvGQBe\\_8HLYYwdlg](https://strakertranslations.zoom.us/webinar/register/WN_YgVG6MvGQBe_8HLYYwdlg)

When: Apr 27, 2023 10:00 AM Canberra, Melbourne, Sydney

Topic: Straker (STG) Q4 - 4C presentation

## 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](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 2023

<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	14,087	62,036
1.2 Payments for		
(a) research and development	(1,573)	(6,283)
(b) product manufacturing and operating costs	(6,086)	(28,314)
(c) advertising and marketing	(126)	(1,101)
(d) leased assets	-	-
(e) staff costs	(2,988)	(20,718)
(f) administration and corporate costs	(874)	(3,556)
1.3 Dividends received (see note 3)		
1.4 Interest received	13	22
1.5 Interest and other costs of finance paid		(1)
1.6 Income taxes paid	(179)	(343)
1.7 Government grants and tax incentives	(15)	190
1.8 Other (provide details if material)		
Acquisition/integration costs	(121)	(142)
Restructure costs	(34)	(362)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>2,104</b>	<b>1,428</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5)	(106)
(d) investments	-	-
(e) intellectual property	(386)	(2,207)
(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)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(391)</b>	<b>(2,313)</b>
<b>3. Cash flows from financing activities</b>		
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
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	(40)	(1,703)
Lease Payments	(130)	(544)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(170)</b>	<b>(2,239)</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	10,854	15,131
4.2	Net cash from / (used in) operating activities (item 1.9 above)	2,104	1,428
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(391)	(2,313)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(170)	(2,239)
4.5	Effect of movement in exchange rates on cash held	108	498
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>12,505</b>	<b>12,505</b>

<b>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</b>			
	<b>Current quarter \$NZD'000</b>	<b>Previous quarter \$NZD'000</b>	
5.1	Bank balances	12,505	10,854
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
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>12,505</b>	<b>10,854</b>

<b>6. Payments to related parties of the entity and their associates</b>		<b>Current quarter \$NZD'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	130
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 \$NZD'000	Amount drawn at quarter end \$NZD'000

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

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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)	2,104
8.2 Cash and cash equivalents at quarter end (Item 4.6)	12,505
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	12,505
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	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: 27-Apr-23

Authorised by: By the Board of Directors

## 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.